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THE SCISSORS GRINDER, BY EASTMAN JOHNSON

COURTESY NEW YORK STATE HISTORICAL ASSOCIATION

See PAGE 5

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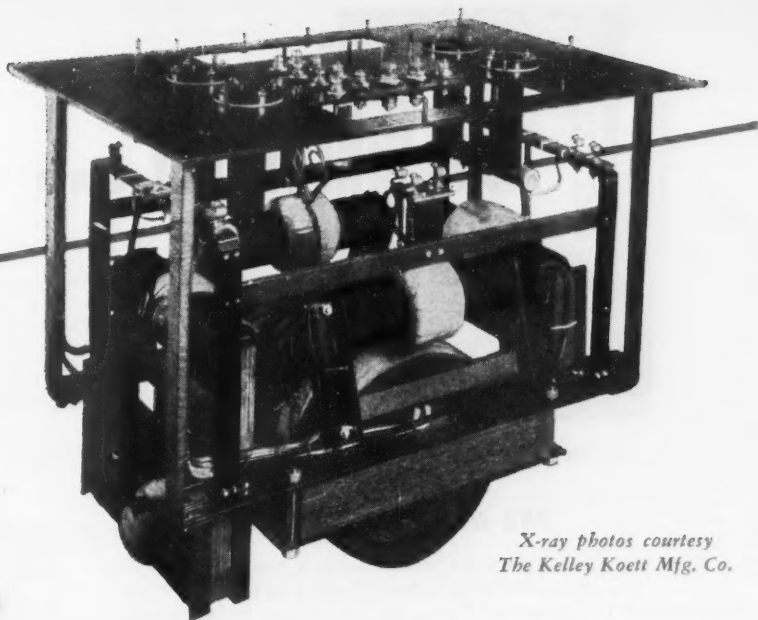
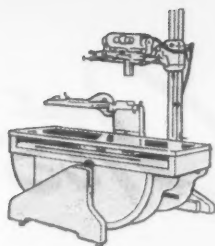
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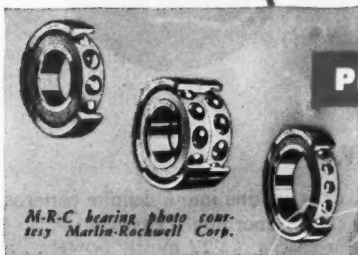
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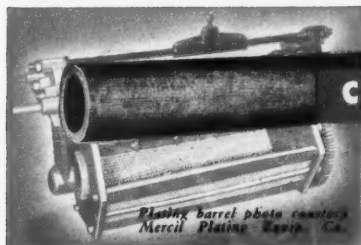
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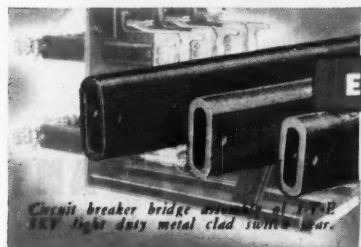


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FEBRUARY 1949

"BOTTOM-UP MANAGEMENT" *The unusual reader interest in William B. Given's stimulating discussion of "Bottom-up Management Builds Individual Initiative," which appeared in the November DUN'S REVIEW, resulted in the article being reprinted. The supply is limited, but while it lasts the reprints are available without charge.*

Mr. Given suggests developing a mode of business practise by which responsibility is passed down through an organization so that supervisors and workers at all levels are encouraged to develop creative thought on improving equipment and work methods and to translate this thought into action.

SPURRING INDUSTRIALIZATION *What are the advantages to the United States in the industrialization of agrarian countries such as those of Latin America? How may this be accomplished and what are the problems which stand in the way? George H. Houston, consulting engineer and former president of the Baldwin Locomotive Works, considers this matter in the March DUN'S REVIEW.*

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DUN'S REVIEW (including *Dun's International Review* and *The World's Markets*). February 1949. Published monthly, 290 Broadway, New York 8, N. Y. Subscription information on page 68. Copyright 1949 by DUN & BRADSTREET, INC. Copyrighted under International Copyright Convention. All rights reserved under Pan American Copyright Convention. Frontispiece, freight train in Cascade Mountains, Oregon, Devaney Photograph.

Cover

THE SCISSORS-GRINDER

THE early scissors-grinder was a man of dual accomplishment. When the housewife had no scissors or knives to sharpen it was a pretty sure thing that a broken umbrella could be produced that needed mending.

His tinkling bell would herald his approach down the neighborhood streets in the late 1800's as housewives scurried to find the little jobs they had been saving for his visit. As he pumped the treadle of his grinder and drew the steel blade back and forth across the stone, a shower of golden stars danced and died along the arc of his stone. Fascinated children marveled at the beauty of the pyrotechnics but winced as he drew a deft finger across the blade to test its keen edge.

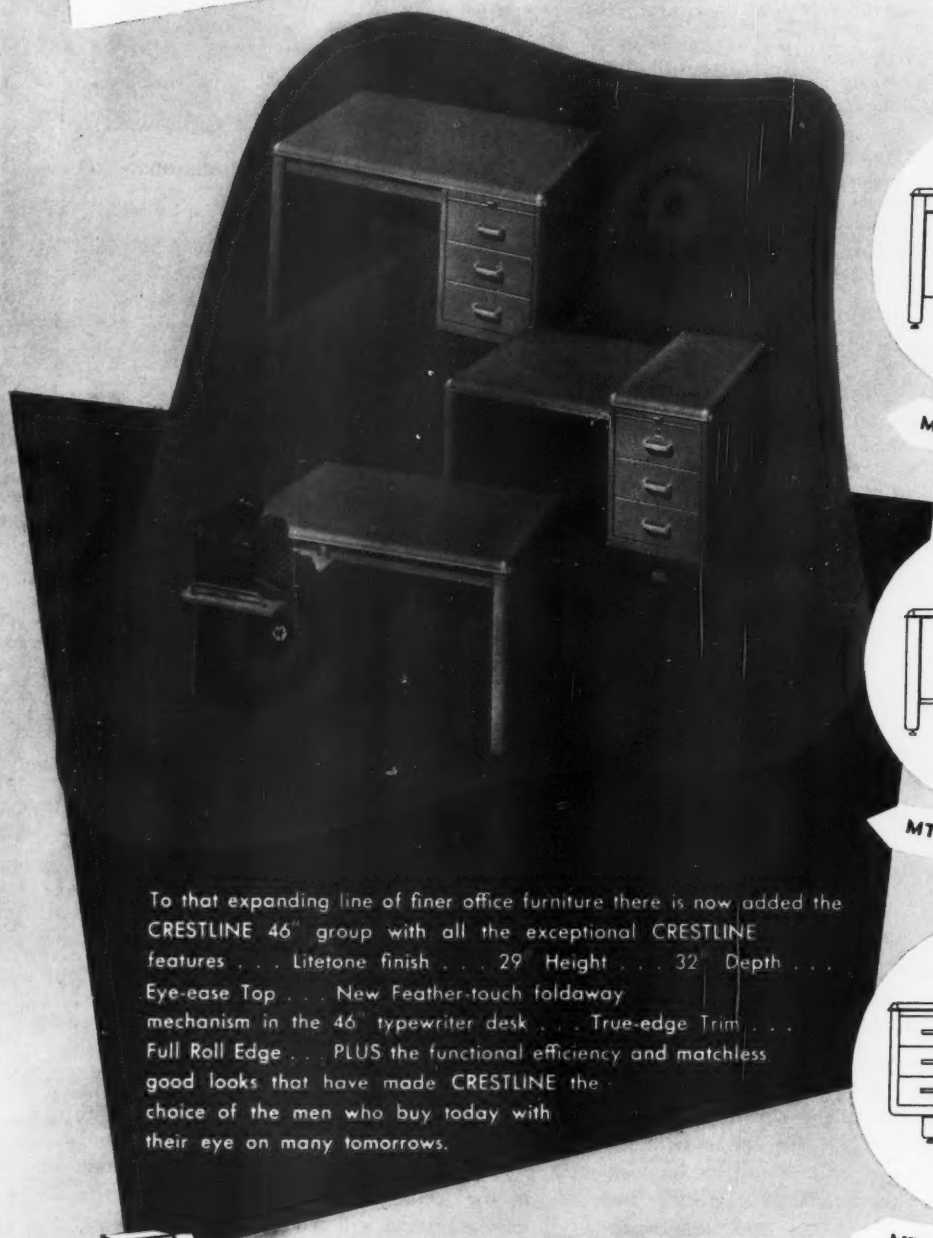
Always sure of an audience the scissors-grinder-man was sometimes something of an

actor. Rhythmic flourishes of the knives as he flipped them from side to side brought "ohs" and "ahs" from his pop-eyed audience of small fry. Perhaps many a man, who to-day occupies a place of prominence in business, science, or the arts, at one time thought only of a future emulating this wonderful scissors-grinder-man.

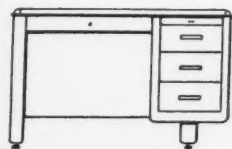
Down the quiet lanes of outlying towns and in the teeming sections of great cities the scissors-grinder still caters to his diminishing trade—for the march of progress has made its mark upon him—to-day simple automatic sharpeners which any housewife can handle, and power driven high-speed sharpeners in factories keep the keen edges on cutting tools in the home and in industry.

CLARENCE SWITZER

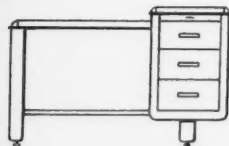
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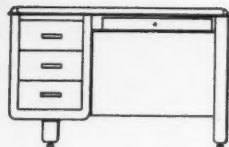
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REPUBLIC STEEL MILL, YOUNGSTOWN, OHIO—CORSON PHOTOGRAPH FROM DEVANEY

Long-Term Security FOR PRIVATE INDUSTRY

ERWIN H. SCHELL

*Professor of Business Management, In Charge Department
of Business and Engineering Administration,
Massachusetts Institute of Technology*

A PRIME duty of top-management is to so order and administer general corporate policies that the long-term security of the enterprise is reasonably assured. Such protective policies serve to anticipate the impact of unexpected happenings or to resist subversive pressures. That one of the best defenses is a strong offense is as true in business as in warfare. Protection by purely negative measures in the long run is likely to prove futile.

The nature of these aggressive measures is determined by the kind of difficulties encountered. These, too, are changing. Consequently, new trends in safeguards to American business are now appearing and already reveal new designs peculiarly fitted to conserve the

continuance and growth of private enterprise in the United States.

Early in our industrial history there was a common conviction that a large backlog of unfilled orders was the surest road to industrial security.

A second and somewhat later procedure was that of building heavy inventories of raw materials, stock in process, or finished parts. Prior to the First World War, banks measured industrial borrowing capacity in terms of inventory valuation no less than "character, competence, and capital."

More recently, top-management swung toward the establishment of large reserves of cash or Government securities. In addition to gracing the balance sheet, such resources brought

trade prestige, enhanced buying power, and suggested that dividend payments could more certainly be maintained.

These attempts to provide assurance of continuity have not been found entirely satisfying. For example, unfilled orders proved an invitation to competition. The presence of unsatisfied demand is a sure stimulant to new establishments to satisfy it.

Again, with the advent of increasing price fluctuations after the First World War and with growth in obsolescence rates, inventories suddenly became viewed as liabilities rather than assets, and the would-be borrower was frequently urged by his bank to liquidate holdings as a prerequisite to receiving financial assistance.

As for large liquid assets, the payment of dividends solely from surplus during periods of subnormal business activity was early criticised, and more recently Uncle Sam has frowned upon the financial policy of building over-large cash reserves.

Putting eggs in more than one basket has for many years been a favorite method of lessening industrial risk, yet this apparently impregnable policy has a way of developing its own peculiar pitfalls.

As an example, a line-to-lee which had considerable attractiveness after the First World War was that of foreign trade, culminating in the establishment of company-owned foreign branches. Thus risk in terms of the fluctuations of the national business cycle would be averaged over more than one country. However, limitations established by foreign governments over branch enterprises have markedly lessened the dependability of dollar income from these sources; and to-day investments of this nature have questionable value as safeguards for industrial continuity.

Product Diversification

Diversification of product lines has also been widely undertaken, frequently with benefit to the company. Yet the disadvantages of too great variety often more than counterbalance the gains. The fundamental weakness in diversity as a corporate protection is the fact that the most serious current hazards confronting private enterprise tend to affect all establishments alike, irrespective of diversity in the productive elements. Hence top-management is seeking elsewhere for protective measures.

The use of collaborative methods in gaining security indicates the attaining of industrial maturity and the broadening of administrative outlook beyond that characteristic of the earlier narrowly competitive view-point.

Increasingly, establishments are favoring active participation with trade associations, professional societies, and other national bodies of an industrial nature which are in a stronger position to exercise influence in co-operative relationships with representatives of other important segments of the American

(Continued on page 50)



CAREW PHOTOGRAPH FROM MONKMEYER

" . . . investments in good-will have been directed to the employee group. . . Top-management to-day is instituting long-range policies and programs for employee selection, training, and administration which would not have been dreamed of a scant decade ago."

"A line-to-lee which had considerable attractiveness after the First World War was . . . foreign trade, culminating in . . . company-owned foreign branches. Thus risk in terms of fluctuations of the national business cycle would be averaged over more than one country."

MAHOGANY LOGS READY FOR LOADING AT MOBILE—CORSON PHOTOGRAPH FROM DEVANEY





CONSOLIDATED EDISON PLANT, NEW YORK CITY—CORSON PHOTOGRAPH FROM DEVANEY

PART II.

The Relativity of Net Profits

ROY A FOULKE

Vice-President, DUN & BRADSTREET, INC.

APPLIED accountancy, as practised, to be an exact science in mathematics and in economics, postulates continuously stable prices. This condition does not exist in a profit incentive economy, and as far as historical research tells us, has never existed for any material length of time in any economy. As a result, the mathematical figure of accounting profits is a relative one, based first, on the fact that we live in a world of fluctuating monetary values reflected by constantly changing prices, and second, by the series of accounting assumptions, which were discussed in the January issue of *DUN'S REVIEW*, under the title "The Relativity of Net Profits."

As we have seen, certain assets are carried in the balance sheet at dollar values which often are different from the current economic values of those

How CAN PROFITS BE MEASURED? WHAT IS THE THE RÔLE PLAYED BY PROFITS IN OUR ECONOMY? WHAT EFFORTS, SUCCESSSES, AND FAILURES LIE BEHIND THE PROFIT FIGURES? THESE ARE PROBLEMS OF UNUSUAL CURRENT INTEREST TO THE BUSINESS MAN, THE WORKER, THE INVESTOR, THE TAXPAYER, AND CONGRESS.

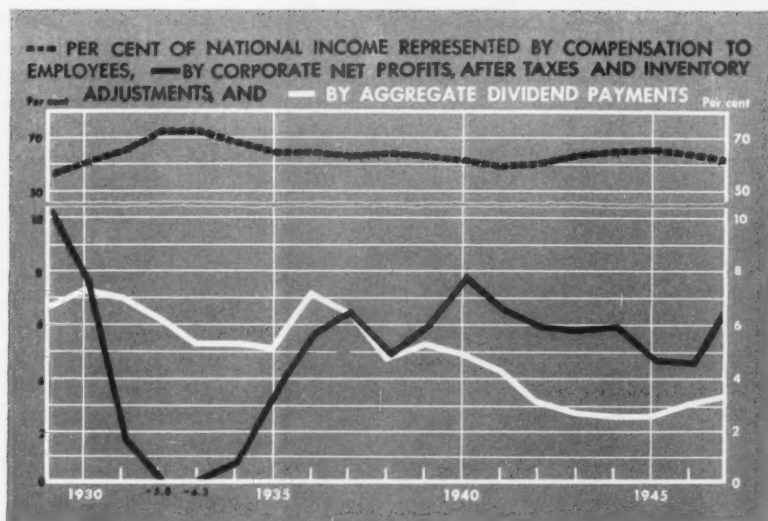
items on the statement date. Moreover, the profit and loss statement, which is related to the balance sheet, provides an accounting profit figure which is materially affected by the convention of taking depreciation on the basis of "recorded facts," that is, original cost, instead of current economic values, and by "personal judgments."

Now let us turn from the concept of net profits in accounting to the concept and problem of net profits in economics.

The figures of the Bureau of Labor Statistics show that the average production worker in typical industrial plants received a weekly wage of \$54.49 in November 1948 an increase of 128.4 per

cent since 1939. These dollar wages are the highest that have ever been attained in the United States, in peace or in war. And yet if any normal, intelligent individual were confronted with this statement, he would undoubtedly say that it was little more than a figure of speech. Wages have increased but, at the same time, the prices and the cost of living also have increased. One dollar to-day will buy only as much as would 57 cents in 1939. A dollar is a fixed unit of monetary value but a fluctuating unit of economic value. We all know that the dollar of 1948 is not the same as the pre-war dollar.

It is one of the strange, perplexing,



The percentages of the national income that are represented by employee compensation and by corporate profit have fluctuated considerably in the past 20 years. Usually an increase in one has been accompanied by a decline in the other. Aggregate dividend payments during the past two decades have generally varied less than four percentage points when compared with the national income. This chart was compiled from United States Office of Business Economics figures.

and dismaying facts that men who instinctively recognize the decreased value of the dollar to labor, fail to recognize the same fact in considering the decreased economic value of the dollar profit to business corporations and stockholders. If a dollar to-day is worth 57 cents in 1939 purchasing power to labor, it is only worth 57 cents to corporations and stockholders. It's the same dollar. Inflation strikes indiscriminately; it has the same effect on the income of corporations as it has on individuals.

Measuring Profits

Considerable discussion has been carried on over the years as to whether the per cent of profit on net worth or the per cent of profit on net sales is the soundest or preferable measure of profit. Both measures serve their particular purposes, but insofar as the per cent of profit on net worth is the incentive for savings, investment, and re-investment, that concept would seem to be the most applicable for the current consideration.

Between 1939 and 1946 accounting profits, after taxes, of all corporations increased from 3.5 per cent to 7.4 per cent on the aggregate net worth of all corporations, and from 1939 to 1947 from 3.5 per cent to 9.6 per cent. In other words, the per cent of accounting profits on aggregate net worth in-

creased 111 per cent between 1939 and 1946, and 174 per cent between 1939 and 1947. The average wages of production workers in manufacturing industries as reported by the Bureau of Labor Statistics increased 83 per cent between 1939 and 1946, and 100.3 per cent between 1939 and 1947.

From this comparison it is evident that the increases in the per cent of accounting profits, after taxes, on aggregate net worth between 1939 and 1946, and between 1939 and 1947, were materially higher than the increase in wages of typical industrial workers over the same period of years. This fact does, however, raise some question of comparable bases even though identical years are being considered.

From the very moderate fluctuations that occurred in average wages from 1937 through 1940, it would appear that average wages were fairly well stabilized in 1939. On the other hand, there has been no period since 1929, the year aggregate corporate accounting profits were first determined by the Department of Commerce, when accounting profits have been even faintly stabilized.

Let us pursue this inquiry a little further, and ascertain, if we can, a more stable base for measuring profits. Let us look at the dividend returns on preferred and common stocks over these same years. The data for preferred

stocks are based upon ten high grade industrials, ten medium grade industrials, and ten "special" grade industrial preferred stocks. Common stock yields were based on 200 common stocks.

The yields on the basis of market prices of the preferred and common stocks follow somewhat different patterns. On preferred stocks the average yield decreased steadily from 1939 through 1946 except for an increase in 1942; there was a moderate increase in 1947. On common stocks the average yield on the basis of market prices increased steadily from 1939 to a high in 1942 and then decreased until 1947 when a slight expansion occurred. The average yield on the preferred stocks for the nine years was 5.47 per cent and on the common stocks was 5.03 per cent.

The average yield of 5.03 per cent on common stocks for the nine years would seem to be an objective base with which the per cent of corporate accounting net profit might reasonably be compared. Over the years from 1939 to 1947 inclusive, dividend payments of all corporations, according to the com-

(Continued on page 44)

DRILL PRESS IN OPERATION—CORSON PHOTOGRAPH FROM DEVANEY



Why Do So Many Business Men

START FOUNDATIONS?



LOOKING UP BROADWAY FROM NEW YORK CUSTOMS HOUSE—CORSON PHOTOGRAPH FROM DEVANEY

J. K. LASSER, CPA

Chairman, Institute on Federal Taxation
New York University

HILANTHROPIC motives are the primary force behind the creation of most foundations. But there may be less altruistic and even selfish motives. These are legitimate and even desirable, for they benefit the public. I shall list them briefly.

Income taxes are a chief concern of many donors. They can get a deduction for contributions to their foundations of up to 15 per cent of adjusted

gross income. By giving away appreciated property the donor escapes a tax on the realization of his gain as well.

By giving property to a foundation which he controls the donor can save himself income taxes, via the contribution deduction. But he can also have the foundation distribute the charity where and when it seems most desirable to do so. That may be at any time, even in the distant future, in spite of the fact that the donor receives a contribution deduction in the year of

his gift. The donor need no longer make hurried decisions as to how much to give away.

The foundation protects the rich man from the avalanche of charity requests that regularly come to him. These requests can be passed on to the foundation created for that purpose.

The foundation can aid considerably to avoid the total elimination of capital that follows with our high estate taxes. Capital can therefore be devoted to educational purposes, industrial research,

*T*AX FREE EDUCATIONAL AND CHARITABLE FOUNDATIONS, WITH EXTENSIVE HOLDINGS IN FACTORIES, WAREHOUSES, DEPARTMENT STORES, AND A VARIETY OF REAL ESTATE INTERESTS, ARE A NEW PHENOMENON IN AMERICAN BIG BUSINESS. WHY HAS THE NUMBER OF FOUNDATIONS SWELLED DURING THE PAST THREE DECADES FROM A MERE HANDFUL TO AN ESTIMATED 10,000, WITH ASSETS REPUTED TO BE WORTH MORE THAN 1.8 BILLION DOLLARS?

Much of this material appears in the author's book—*How Tax Laws Make Giving to Charity Easy*—published in 1948 by Funk & Wagnalls—The Editors.

religious, or scientific efforts. With present day income and estate tax rates, the foundation seems to be the last method available to permit diversion of capital to sources of one's own choosing. Perhaps it is the one of the few processes left by which we can now begin to accomplish the job previously completed by capital built up by income or property appreciation.

The present day high income tax rates and high estate tax rates suggest that foundations may well be the method of insuring that funds will be available for use in new ventures in business. At the current writing, there is little opportunity to attract this capital in view of the tax rates on businesses and the double tax payments required on dividend distributions. The foundation protects this money and can earmark it for industrial expansion. Thus the foundation can preserve capital appreciation. It can protect funds from the erosion of the tax system. By it, funds may be retained for the competitive effort of enterprises in which individuals are interested. Ordinarily that could not be accomplished out of liquid

funds available from ordinary dividend or salary income.

The mechanics used to establish the foundation may secure all sorts of direct or indirect payments to members of a family. For example, the payments may consist of compensation paid by the foundation to members of the family or annuities to the family. Sometimes funds are given to a foundation subject to the payment of an annuity.

Not only the impact of income taxes but estate taxes (which take up to 77 per cent of estate wealth) and gift taxes (which are 75 per cent of estate tax rates) bring pressure on wealthy men to establish foundations. Often family control of a business can be maintained by preventing its sacrifices to pay the heavy estate taxes.

Most foundations¹ are established to use funds for some purposes that the creators deem worthy. But altruistic and benevolent motives are often reinforced by personal benefits in prompting the formation of foundations. Our

¹ The term is much misused and abused. The word "foundation," having a connotation of wealth, permanence, and respectability has often been used by promoters for one purpose or another.

tax structure, through heavy estate and gift taxation, makes it difficult for wealthy men to give a large proportion of their wealth to their families.² It applies the sharp and sweeping scythe of taxation to transfers of wealth. On the other hand, transfers to public welfare organizations are especially favored by the tax law. Thus, our taxing system has strengthened the natural impulses to give to charity. The number and influence of public welfare organizations have increased over the years, especially in the last decade of heavy, progressive income taxation.

Foundations Rapidly Increase

Hundreds of foundations have been created during the last dozen years. In 1915 the first directory of American foundations listed the existence of twenty-three of them in the United States. When surtaxes began to mount to high rates in 1936 these organizations multiplied. The Russell Sage Foundation lists more than 500 with capital assets of over \$50,000 each. The Treasury Department estimates there are over 10,000 philanthropic foundations in the United States. The vast majority are relatively small, though at least two have assets of over \$100 million, a dozen have assets of \$25 million, and nearly forty have assets of over \$10 million each. A single New York bank is the trustee of about \$400 million of trust funds dedicated to charity.

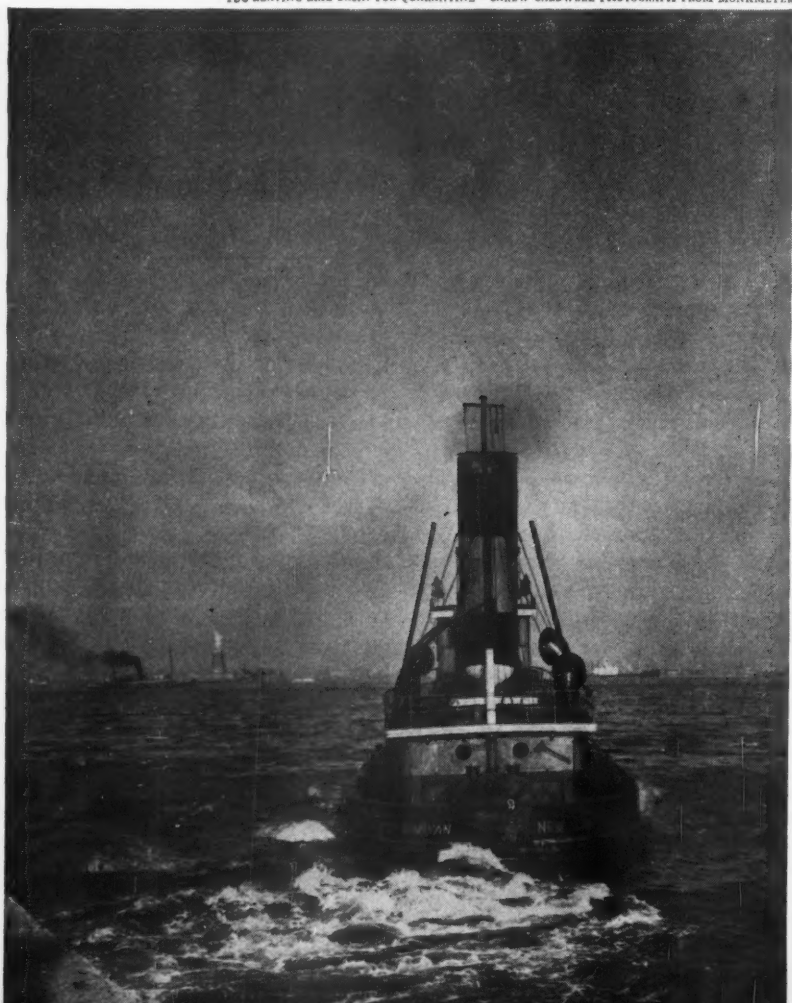
Newspaper stories say the biggest foundation was organized by the Ford family. It apparently has saved millions in estate taxes by receiving much of the non-voting Ford Motor Company stock.

But these generous contributions did not disturb, in the least, the control of the Ford enterprises. Only 5 per cent of the total Ford stock is voting stock and it is retained right in the family.

That may give us the reason for some of the popularity of and growth in the number of family foundations. The answer is—control. Even if voting stock is given to the foundation, control is retained when members of the

² In the tax sense a foundation is a non-profit organization, but not a governmental body. It has a fund of its own, the income or principal of which is used for public welfare. It may be a corporation, a trust, or an unincorporated association. Where permanence is wanted, the corporate form is generally more desirable and is more generally used.

TUG LEAVING ERIE BASIN FOR QUARANTINE—CAREW-CALDWELL PHOTOGRAPH FROM MONKMEYER





POURING MOLTEN METAL INTO MOLD—CORSON PHOTOGRAPH FROM DEVANEY

family dominate the foundation as directors, trustees, or as administrative officers. Control of almost everything (except receipt of dividends from the contributed stock which would be largely taxed away anyway) can be retained through the family foundation. At the same time, it can promote good publicity and serve as a powerful social instrument for public welfare.

Many of these family foundations yield great advantages to the businesses and ideals of the donors. Many give aid to employees of the donor's business and therefore contribute to its productivity and good-will. Many well publicized foundations bring favorable public attitudes to the stores and products of the businesses out of which the foundation indirectly emerged. Some provide research benefits. Some, even create jobs for members of the founders' families.

It must be remembered, too, that all the interests in property need not be given away. Life interests, or life estates, can be retained by the donor or his dependents, and remainder interests given to the foundation. An annuity

can be given to the foundation. Or property, subject to an annuity for one or more lives, can be donated.

The terrifying specter of estate taxes looms up when one owns valuable "frozen" assets. Such assets may comprise white-elephant estates and residences, valuable works of art, and collections of all sorts. Their enormous values may swell the size of the estate taxes to the extent that they would have to be auctioned off to raise cash to pay taxes. By giving them to a foundation, as Andrew Mellon did, not only are estate taxes saved but the valuable contribution deduction can be taken. Most important, a great public service is performed. Very often local personal and real property taxes can be avoided by giving the taxed property to a philanthropic foundation.

The charitable foundation does not belong only to the arsenal of the extremely rich man. It can be useful to thousands of men in the middle tax brackets. They, too, can save income and estate taxes and increase their ability to help charitable causes.

Many of those who can benefit are

business men whose controlled corporations have been built up over years of effort and by plowing back substantial profits. By giving a portion of the stock to a family foundation they save the tax on the appreciation of the stock values. They also get a large income tax deduction for the contribution at the increased value. And, substantial estate taxes are saved upon death. These gifts can be made to the foundation over a period of years, thus multiplying the benefits obtained.

Income Does Not Stop

Often managerial income from the property can continue to be received by the donor, or members of his family, even though the property has been given away to the foundation.

Many charitable demands upon potential donors are greatest and reach their peak when economic conditions are depressed and employment low. Yet the ability to give and the tax benefits from charitable deductions are generally highest during prosperous years. Then incomes are high and tax rates up. How can the donor hold on to his funds to the day when charity will need his aid and yet get his contribution deduction in the year when it costs him the least?

The charitable foundation offers a fine solution. By giving the funds to the foundation the donor gets the deduction currently. He can give in his most advantageous year. The foundation, however, can hold on to the funds—even accumulate the income—and then use the money in the years when it can do the most good for the beneficiaries. Where the contributions to the foundation are in the form of property, or shares of stock in a controlled business, no capital need be withdrawn from the business. Thus stock contributions can be made in years of high economic activity with the assurance that the capital will continue to be employed as before and the income accumulated for use in bad years.

Assume that Smith owns the Smith Corporation. Smith wants to organize the Smith Foundation to conduct cancer research. He organizes the foundation so that it enjoys the exempt privilege status and gives it \$500,000,

(Continued on page 35)



CUTTING GEARS IN THE FORD PLANT, RIVER ROUGE—CORSON PHOTOGRAPH FROM DEVANY

Replacement Depreciation

J. H. LANDMAN

Sher, Roeder & Landman

How is American business being curtailed in the struggle to raise production? Why will future productivity suffer from our current efforts to supply markets created by World War chaos? How can America provide now for its continued preeminence in production?

DEPRECIATION, just as much as labor, service, and material, is an element of cost in the conduct of a business. Unlike the latter items which are concurrent charges against income, depreciation is a puzzling, prorated, annual deduction from the original cost (or other base) of consumable and deteriorating property spread over the latter's estimated useful life.

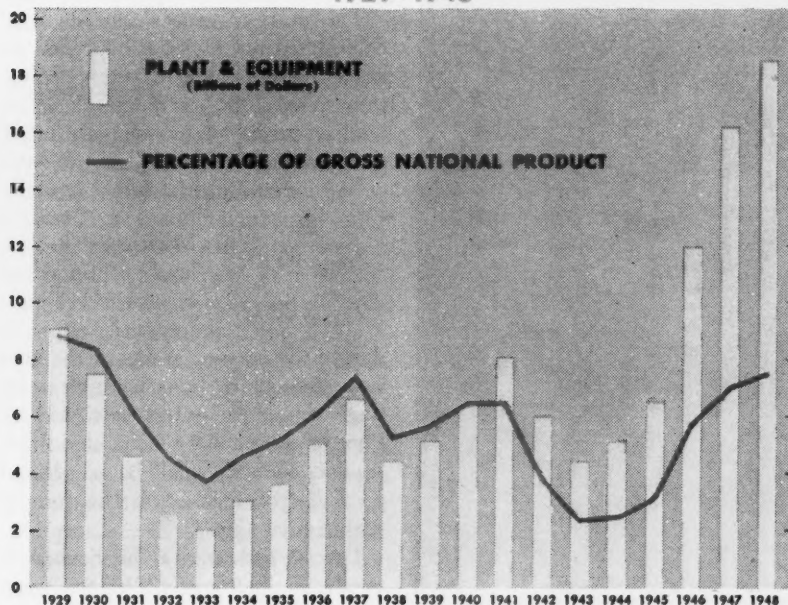
Depreciable properties embrace chiefly plant and equipment, buildings, office furniture and fixtures, and transportation equipment. Naturally, the larger the depreciation is the smaller will be a company's reportable income.

Of late, the ever-present depreciation problem has taken on a new com-

plexion. One justification advanced for annual depreciation for the services of a deteriorating asset is to enable a going business to recover its investment in that property so that it might have ultimately the resources to replace it.

Management is particularly conscious to-day of the fact that, with prevailing price levels as high as they are, business will not be able to acquire out of annual depreciation allowances to the extent that it did in the past the assets that will become exhausted. Obviously, then, since depreciation is predicated on cost and not replacement for accounting and tax purposes, the financial statements of many companies report phantom or illusory profits.

BUSINESS EXPENDITURES FOR PLANT & EQUIPMENT 1929-1948



SOURCES: U.S. Department of Commerce and Securities & Exchange Commission

These annual totals do not agree with those included with the gross national product estimates of the United States Department of Commerce. This is mainly because some of the equipment and construction outlays that were charged to current expense have been excluded from the series contained in this chart.

Currently major corporate financial requirements for new plant and equipment, increases in inventories, and the like are met first out of undistributed net earnings and then out of depreciation allowances. New security issues least satisfy this need. In 1947, of the \$16 billion invested in corporate plant and equipment outlays only \$4.5 billion originated in depreciation reserves. In 1946, of the \$12 billion invested in plant and equipment outlays only \$4.1 billion were of this origin, according to the *Midyear Economic Report* of the President, July 1948.

It appears that corporations must increase their earned surplus, depreciation allowances, and public flotations of securities to adjust for the ever-mounting price levels of plant and equipment. This is necessary should they ever want to replace their plant and equipment when exhausted, which they must eventually do to stay in business. The smaller firms must particularly accumulate earnings and depreciation reserves for this purpose because they cannot readily attract new capital or contract loans.

Our industrial plant and equipment outlays have already assumed enormous

proportions. A decade and a half of subnormal business expansion during the depression and war and the current domestic and foreign demands for our manufactured goods are responsible for this heavy post-war business investment. No small part therein was played by the emphasis on cost reduction and the substitution of new products and techniques for old ones which were caused by the fact that national employment and productive capacity have reached maximum levels. The accompanying chart presents the history of new dollar capital investments in plant and equipment, and the history of the percentages of new plant and equipment outlays to gross national product. But these extraordinary current business expenditures for new plant and equipment are not enough.

The accounting profession was entreated by business to revise its time-honored allowances for depreciation on cost. After a thorough study of the question, it declined to do so for 1947 and recently for 1948. It takes the position that the problem of high prices is a financial matter and, even if it is not altogether so, that the period of "present conditions" is not precisely the proper

time to make a change in reporting.¹

It believes that such a change would confuse readers of financial statements and nullify many of the gains that have been made toward clearer representation of corporate finances. It does, however, hold that it is entirely satisfactory for management to make annual appropriations of net income or surplus in contemplation of the acquisition of facilities at higher price levels. Though this advice is not intended to be facetious, it nevertheless affords business little comfort.

Adjusting for Value

The dissenting accountants advise the adoption of an appropriate annual index factor such as the one for wholesale commodity prices, construction costs, or cost of living, to convert cost to value depreciation. This may be done provided the financial statement reflects this item in dollars of original and of current purchasing power so that the public, investors, labor, and management can readily discern the difference in consequential incomes.

Despite the strictures of the accounting profession a few bold companies deviated and espoused value depreciation as their economic shibboleth. Some charged off the excessive construction and replacement costs as current losses. Others augmented their over-all depreciation allowances to reflect at least in part the increased dollar value of the services of depreciable assets acquired in former dollars of much higher purchasing power.

Others increased the depreciation rates of their newly acquired assets so as to spread their high dollar costs over the current and future years of forecasted high incomes. Still others wrote up all their capital assets and simultaneously advanced proportionately their depreciation allowances.

Some of these arbitrary management-dictated adjustments embraced inventory valuations and other items as well as plant and equipment. Most of these extra deductions were properly made after having arrived at operating income.

(Continued on page 56)

¹ *Depreciation and High Costs*, Accounting Research Bulletin No. 33, dated December 1947, of the American Institute of Accountants. Its Committee on Accounting Procedure reiterated this position with minor changes on October 14, 1948, with four dissenting votes voiced by Messrs. Broad, Paton, Peloubet, and Wellington.



LITTLE FALLS, GRAND CANYON, YELLOWSTONE NATIONAL PARK—DEVANEY PHOTOGRAPH

The Trend of Business

PRODUCTION . . . PRICES . . . TRADE . . . FINANCE

RECORD BREAKING LEVELS OF BUSINESS ACTIVITY GENERALLY WERE SUSTAINED IN THE EARLY WEEKS OF 1949. THE OUTLOOK FOR CONTINUED HIGH EMPLOYMENT, PRODUCTION, AND SALES WAS GOOD.

THE open season for 1949 forecasting is about over. Many of the experts, backed by a wealth of statistical evidence, have completed their studied predictions. The resulting reports generally are optimistic concerning the immediate future.

The recession which has been anticipated annually since the end of the war has not materialized. Since the post-war pattern has not been identical with that which followed the previous war, most economists have been cautious in

attempting to draw comparisons between these two periods.

The future course of business will be determined not by what happened 20 years ago, but rather by the more recent events of the past month, the latest week, yesterday. It is upon these trends that business men will base their decisions concerning the future.

Industrial Production Manufacturing levels continued to be near record high peacetime marks during the opening weeks of the new year. Many forecasters, pointing to the huge volume of orders now held by some producers, claimed that these high production levels would be maintained or slightly increased in the coming months.

Despite reports that previous peak production has largely filled the "pipelines" for some goods, the sales volume for all manufacturers in November was about 10 per cent above that of a year ago. These sales figures have been levelling off in recent months, but they are at an unusually high figure.

Some levelling off may also be seen in production, but the December and early January reports reflect no signs of an over-all decline. The year-end holidays adversely affected the production schedules of some industries and slightly reduced the December totals. These seasonal declines ended with an increase in output in the first weeks of January in many industries including steel, coal, oil, automobile, electric power, and construction.

Factories are producing almost twice as many goods to-day as they did in pre-war years. Bolstered by a high demand for both durable and nondurable goods, many industries have succeeded in breaking the production records that were established during the war. In many industries production has ap-

Industrial Production

Seasonally Adjusted Index: 1935-1937=100, Federal Reserve Board

	1945	1946	1947	1948
January	234	160	189	193
February	236	154	189	194
March	235	168	190	191
April	230	165	187	188
May	225	159	185	192
June	224	170	184	192
July	211	172	176	191
August	181	178	186	192
September	167	175	186	192
October	162	182	190	195
November	168	183	192	194
December	163	182	192	193*

* Approximation; figure from quoted source not available.

Employment

Millions of Persons: U. S. Bureau of the Census

	1945	1946	1947	1948
January	52.1	51.0	55.1	57.1
February	52.7	51.2	55.1	57.1
March	53.2	52.5	56.1	57.3
April	53.6	52.8	56.7	58.3
May	53.8	52.9	58.3	58.7
June	54.6	54.4	60.1	61.3
July	54.4	57.8	60.1	61.6
August	55.0	57.7	59.6	61.2
September	51.1	57.0	58.9	60.3
October	51.6	57.0	59.2	60.1
November	51.4	57.0	58.6	59.9
December	51.2	56.3	58.0	59.5

Wholesale Commodity Prices

Index: 1926=100, U. S. Bureau of Labor Statistics

	1945	1946	1947	1948
January	104.9	107.1	142.0	165.7
February	105.2	107.7	145.2	160.9
March	105.3	108.9	150.2	160.9
April	105.7	110.2	148.1	162.8
May	106.0	111.0	147.3	161.9
June	106.1	112.9	147.7	166.2
July	105.9	122.7	150.6	168.7
August	105.7	121.1	153.7	169.5
September	105.2	124.0	157.4	164.7
October	105.9	134.1	158.5	165.2
November	106.8	139.7	159.6	163.9
December	107.1	140.9	163.2	163.7*

* Approximation; figure from quoted source not available.

proached the limits set by plant capacity, availability of essential materials, and the supply of labor.

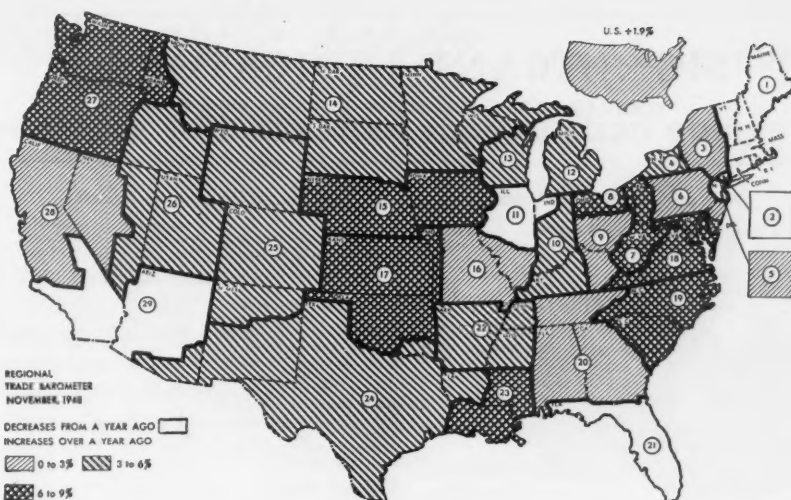
Employment The stability which has characterized production during the past five months has also been evident in employment figures. Over-all employment has remained near 60 million persons. While slight decreases in total employment have recently occurred, these resulted largely from a seasonal reduction in the number of agricultural workers.

Nonagricultural employment in the last half of 1948 was virtually unchanged at 52 million workers. This is the highest employment level on record. Unemployment at the end of the year was close to the lowest peacetime figure ever reached. For the fifth consecutive month the U. S. Bureau of the Census reported less than 2 million people unemployed in December.

Income Personal income, which has risen to new peaks in each month since the middle of 1948, was at a new all-time record in November. At a seasonally adjusted annual rate it was \$216.7 billion or about \$1 billion above the October rate. About half of this increase resulted from a rise in agricultural income.

Wage and salary receipts rose rather substantially in the middle of 1948; since then they have remained almost unchanged at a very high level. Most of the recent increase in over-all personal income resulted from a rise in proprietors' and rental income, interest, and dividends.

Trade Extensive clearance sales stimulated consumer buying in early January. Retail dollar volume was down somewhat from the peak December level, but was slightly above a year ago. Price reductions



TRADE ACTIVITY IN TWENTY-NINE REGIONS

REGION:	Nov. 1948	% Change from Nov. 1947	Oct. 1948	Nov. 1948	% Change from Nov. 1947	Oct. 1948
United States.....	296.8	+ 1.9	- 3.4	320.5	+ 6.6	- 4.7
1. New England.....	220.5	- 0.1	- 3.7	303.0	+ 2.2	+ 1.5
2. New York City.....	238.8	- 0.8	- 4.7	336.2	+ 7.0	- 0.3
3. Albany, Utica, and Syracuse...	290.5	+ 1.4	- 2.5	297.0	+ 6.7	- 2.1
4. Buffalo and Rochester.....	297.2	+ 3.7	- 1.6	344.5	+ 8.9	+ 2.1
5. Northern New Jersey.....	230.4	+ 1.1	+ 1.9	373.9	+ 2.1	- 9.9
6. Philadelphia.....	275.8	+ 2.5	+ 0.4	352.2	- 2.5	- 6.6
7. Pittsburgh.....	276.8	+ 7.7	- 9.4	323.3	+ 3.4	- 8.1
8. Cleveland.....	305.7	+ 6.0	- 6.7	353.6	+ 7.2	+ 0.2
9. Cincinnati and Columbus....	308.3	+ 2.1	- 7.5	382.9	+ 3.5	- 1.6
10. Indianapolis and Louisville...	337.1	+ 4.4	- 1.5	315.0	+ 4.8	- 6.8
11. Chicago.....	382.3	- 0.1	- 2.1	315.7	+ 3.5	- 0.4
12. Detroit.....	317.2	+ 4.6	- 8.4	342.1	+ 6.3	+ 3.5
13. Milwaukee.....	338.2	+ 5.6	+ 4.7	307.6	+ 2.0	- 0.6
14. Minneapolis and St. Paul....	316.0	+ 4.6	- 3.1	306.9	- 3.6	- 2.3
15. Iowa and Nebraska.....	320.5	+ 6.6	- 4.7			
16. St. Louis.....	303.0	+ 2.2	+ 1.5			
17. Kansas City.....	336.2	+ 7.0	- 0.3			
18. Maryland and Virginia.....	297.0	+ 6.7	- 2.1			
19. North and South Carolina....	344.5	+ 8.9	+ 2.1			
20. Atlanta and Birmingham....	373.9	+ 2.1	- 9.9			
21. Florida.....	352.2	- 2.5	- 6.6			
22. Memphis.....	323.3	+ 3.4	- 8.1			
23. New Orleans.....	353.6	+ 7.2	+ 0.2			
24. Texas.....	382.9	+ 3.5	- 1.6			
25. Denver.....	315.0	+ 4.8	- 6.8			
26. Salt Lake City.....	315.7	+ 3.5	- 0.4			
27. Portland and Seattle.....	342.1	+ 6.3	+ 3.5			
28. San Francisco.....	307.6	+ 2.0	- 0.6			
29. Los Angeles.....	306.9	- 3.6	- 2.3			

were larger and more widespread than at any time since the war's end; many bargains were offered in the traditional January white sales.

Although Christmas shopping lagged during early December, substantial gains in the latter part of the month lifted retail dollar volume near a new peak level. It was estimated to be slightly above that of December 1947. The increase was attributed chiefly to higher prices; unit volume in some lines remained well below that of the preceding year.

The DUN'S REVIEW trade barometer, measuring the level of consumer buying in terms of the 1935-1939 average level, fell 4.7 per cent in December to

282.9 (preliminary). This barometer, adjusted for seasonal variations and the number of business days in the month, was 3.1 per cent above the 274.4 of a year ago.

The slight dip in consumer spending during November was reflected in the final barometer for that month. At 296.8 it was 3.4 per cent below October's near-peak 307.1; but it was 1.9 per cent above the 291.2 of November 1947.

Consumer buying was slightly below a year ago in five of the regions; the declines varied between 0.1 per cent in the New England and Chicago Regions (1 and 11) and 3.6 per cent in the Los Angeles Region (29).

The barometer for the New England

Consumers' Price Index

Index: 1935-1939=100, U. S. Bureau of Labor Statistics

	1945	1946	1947	1948
January	127.1	129.9	153.3	168.8
February	126.9	129.6	153.2	172.5
March	126.8	130.2	156.1	166.9
April	127.1	131.1	159.0	169.3
May	128.1	131.7	160.0	170.5
June	129.0	133.3	157.1	171.7
July	129.4	141.2	158.4	173.7
August	130.1	144.1	160.3	174.5
September	128.9	147.9	163.8	174.5
October	128.9	148.6	163.8	175.6
November	129.1	153.2	164.9	172.2
December		153.3	167.0	171.5*

* Approximation; figure from quoted source not available.

Retail Sales

Seasonally Adjusted Index: 1935-1939=100, U. S. Department of Commerce

	1945	1946	1947	1948
January	187	231	282	325
February	189	238	288	329
March	193	241	290	331
April	184	247	298	338
May	189	249	300	330
June	193	253	304	337
July	200	263	304	337
August	196	279	303	338
September	198	275	318	340
October	198	275	319	338
November	216	282	323	334
December	217	287	329	335*

* Approximation; figure from quoted source not available.

Industrial Stock Prices

Monthly Average of Daily Index: Dow-Jones

	1945	1946	1947	1948
January	153.95	199.29	176.10	176.26
February	157.13	199.46	181.54	168.47
March	157.22	194.27	176.66	160.94
April	160.47	205.15	171.28	160.95
May	165.58	206.61	168.67	160.88
June	167.31	207.15	173.51	161.65
July	163.0	202.3	173.51	187.05
August	166.8	199.4	160.08	181.77
September	166.8	172.72	176.82	180.33
October	165.07	164.48	181.92	185.19
November	190.22	168.94	181.42	176.60
December	192.74	174.38	179.18	176.31

SIGNIFICANT INDICATORS

COMPILED BY THE PUBLISHERS OF "DUN'S REVIEW"

More detailed figures appear in DUN'S STATISTICAL REVIEW.

WHOLESALE FOOD PRICE INDEX

The index is the sum total of the price per pound of 31 foods in general use. It is not a cost-of-living index.

Latest Weeks	Year Ago	1948
Jan. 11..\$6.08	Jan. 11..\$7.28	High July 13..\$7.36
Jan. 4.. 6.12	Jan. 6.. 7.21	Low Dec. 14.. 6.21
Dec. 28.. 6.21	Dec. 30.. 7.21	1947
Dec. 21.. 6.23	Dec. 23.. 7.11	High Dec. 30..\$7.24
Dec. 14.. 6.21	Dec. 16.. 7.02	Low May 20.. 5.95

DAILY WHOLESALE PRICE INDEX

The index is prepared from the spot closing prices of 30 basic commodities (1930-1932=100).

1949	Dec.	Nov.	Oct.	Sept.
1....	271.52	269.45	272.52	280.87
2....	271.36	271.36	272.41	280.10
3....	269.91	271.91	269.76	278.17
4....	268.36	271.92	270.78	278.17
5....	269.81	271.92	271.09	271.37
6....	269.02	272.07	271.13	272.37
7....	268.43	271.12	271.12	272.07
8....	267.72	270.87	270.20	270.68
9....	270.30	270.93	274.78	280.29
10....	268.30	270.49	270.74	280.44
11....	268.88	268.75	270.71	280.45
12....	267.66	270.71	270.71	280.45
13....	267.10	268.50	270.28	280.03
14....	266.56	268.20	271.10	280.78
15....	266.22	268.14	270.38	281.12
16....	266.22	268.22	271.10	280.54
17....	266.24	268.68	271.20	279.80
18....	266.24	268.68	271.20	279.80
19....	266.24	268.68	271.20	279.80
20....	266.24	268.68	271.20	279.80
21....	266.24	268.68	271.20	279.80
22....	266.24	268.68	271.20	279.80
23....	266.24	268.68	271.20	279.80
24....	266.24	268.68	271.20	279.80
25....	266.24	268.68	271.20	279.80
26....	266.24	268.68	271.20	279.80
27....	266.24	268.68	271.20	279.80
28....	266.24	268.68	271.20	279.80
29....	266.24	268.68	271.20	279.80
30....	266.24	268.68	271.20	279.80
31....	266.24	268.68	271.20	279.80

† Sunday. * Markets closed.

BUILDING PERMIT VALUES—215 CITIES

Geographical Regions:	1948	1947	% Change
New England.....	\$14,063,380	\$16,043,386	-17.0
Middle Atlantic.....	77,846,090	85,043,810	-8.5
South Atlantic.....	21,478,565	28,408,783	-24.4
East Central.....	48,167,799	56,169,736	-14.2
West Central.....	33,366,409	36,096,411	-8.8
Mountain.....	14,371,187	16,528,716	-13.1
Pacific.....	6,246,682	5,308,082	+21.3
Total U. S.....	\$275,540,434	\$307,045,058	-10.5
N. Y. City.....	\$46,214,077	\$60,794,688	-24.0
Outside N. Y. City....	\$229,326,357	\$247,151,270	-7.2

THE FAILURE RECORD

DUN'S FAILURE INDEX*	Dec. 1948	Year 1948	Year 1947	P.C. Chg.†
Unadjusted.....	23.3	20.4	14.3	+43
Adjusted, seasonally....	23.5
NUMBER OF FAILURES.....	531	5,252	3,476	+51
NUMBER BY SIZE OF DEBT				
Under \$5,000.....	73	846	600	+41
\$5,000-\$25,000.....	285	2,799	1,661	+69
\$25,000-\$100,000.....	118	1,208	842	+43
\$100,000 and over.....	55	399	373	+7
NUMBER BY INDUSTRY GROUPS				
Manufacturing.....	155	1,481	1,275	+16
Wholesale Trade.....	50	660	447	+50
Retail Trade.....	217	2,185	1,222	+79
Construction.....	64	439	239	+84
Commercial Service....	36	478	293	+63
		(Liabilities in thousands)		
CURRENT LIABILITIES.....	\$31,731,510	\$66,522,048	+40	
TOTAL LIABILITIES.....	32,072,315	615,223,620	+41	

* Apparent annual failures per 10,000 enterprises; formerly called Dun's Insolvency Index.
† Per cent change of year 1948 from year 1947.

FAILURES BY DIVISIONS OF INDUSTRY

	Number		Liabilities	
(Current liabilities in thousands of dollars)	Jan.-Dec. 1948	Dec. 1947	Jan.-Dec. 1948	Dec. 1947
MINING, MANUFACTURING...	1,481	1,275	130,292	142,727
Mining—Coal, Oil, Misc....	21	12	2,581	674
Food and Kindred Products	180	108	14,264	19,222
Textile Mill Prods., Apparel	169	108	6,979	5,299
Lumber, Lumber Products...	267	178	11,903	14,156
Paper, Printing, Publishing.	63	32	3,486	1,147
Chemicals, Allied Products.	50	59	3,531	9,985
Leather, Leather Products.	69	47	2,947	2,678
Stone, Clay, Glass Products.	45	31	2,746	1,727
Iron, Steel, and Products...	83	76	9,873	5,506
Machinery	220	285	38,267	53,155
Transportation Equipment..	45	50	8,589	10,468
Miscellaneous	269	289	25,126	18,710

WHOLESALE TRADE.....	669	447	26,066	21,138
Food and Farm Products...	182	102	10,372	7,092
Apparel.....	21	10	635	983
Dry Goods.....	17	10	480	668
Lumber, Bldg. Mats., Hdwr.	54	34	1,943	2,691
Chemicals and Drugs.....	36	20	716	523
Motor Vehicles, and Auto Equipment.....	35	28	1,221	601
Miscellaneous.....	324	234	10,709	8,580
RETAIL TRADE.....	2,185	1,222	39,819	21,459
Food and Liquor.....	546	219	6,751	3,799
General Merchandise.....	94	49	5,317	2,570
Apparel and Accessories....	212	183	3,881	2,740
Furniture, Home Furnishings	159	53	2,834	1,625
Lumber, Bldg. Mats., Hdwr.	192	141	5,796	3,340
Eating, Drinking Places....	422	226	9,570	5,643
Drug Stores.....	50	28	940	369
Miscellaneous.....	197	145	3,246	2,094
CONSTRUCTION.....	439	239	15,600	7,211
General Bldg. Contractors...	165	85	8,887	4,603
Building Sub-contractors..	245	145	4,930	1,845
Other Contractors.....	29	9	1,783	763
COMMERCIAL SERVICE.....	478	293	98,780	221,048

NEW BUSINESS INCORPORATIONS

	Nov. 1948	Oct. 1947	Nov. 1948	Eleven Months 1948
Alabama.....	64	49	75	730
Arizona.....	29	49	48	669
Arkansas.....	36	24	36	522
California.....	522	586	632	7,195
Colorado.....	55	50	66	710
Connecticut.....	95	96	116	1,345
Delaware.....	169	171	207	2,111
Florida.....	237	265	324	3,005
Georgia.....	71	88	46	1,179
Idaho.....	21	21	25	305
Illinois.....	347	393	470	4,035
Indiana.....	139	98	126	1,439
Iowa.....	54	52	66	648
Kansas.....	31	52	49	547
Kentucky.....	46	62	75	769
Louisiana.....	50	67	79	904
Maine.....	35	23	34	351
Maryland.....	86	99	160	1,492
Massachusetts.....	244	214	271	2,926
Michigan.....	204	197	234	2,829
Minnesota.....	86	79	96	1,177
Mississippi.....	32	44	27	409
Missouri.....	148	148	148	1,913
Montana.....	27	13	21	201
Nebraska.....	27	31	30	464
Nevada.....	33	56	51	546
New Hampshire.....	15	16	13	293
New Jersey.....	397	386	483	5,117
New Mexico.....	14	15	13	244
New York.....	1,621	1,591	2,046	20,774
North Carolina.....	86	105	130	1,302
North Dakota.....	6	10	23	170
Ohio.....	329	352	315	4,836
Oklahoma.....	64	66	80	997
Oregon.....	50	64	59	801
Pennsylvania.....	205	210	245	2,952
Rhode Island.....	43	35	42	934
South Carolina.....	45	47	46	644
South Dakota.....	10	16	20	212
Tennessee.....	62	86	111	999
Texas.....	209	244	263	3,400
Utah.....	12	32	41	362
Vermont.....	12	17	9	189
Virginia.....	81	70	81	1,199
Washington.....	90	122	115	1,460
West Virginia.....	49	53	89	860
Wisconsin.....	104	102	119	1,432
Wyoming.....	21	24	18	300
Total 48 States.....	6,413	6,686	7,873	88,680

Region (1) was the lowest among all regions; at 220.5 it was 25.7 per cent below the national average. The Northern New Jersey Region (5) barometer was next lowest; it was 22.4 per cent below the national average.

The highest barometer among all regions was the 382.9 for the Texas Region (24). Other high barometers were 373.9 for the Atlanta and Birmingham Region (20), and 353.6 for the New Orleans Region (23).

There was a moderate seasonal decline in wholesale order volume during December and early January. While reorder volume for Winter merchandise dropped sharply, there was increased demand for Spring goods. Most buyers were cautious when making future commitments. Deliveries were prompt.

Prices Consumer prices reached an unprecedented peak in August and September of 1948 and then began a gradual dip that continued through the remainder of the year. While these declines have been small, they have been centered largely in food. Since food is the largest single item in the average consumer's budget, these declines have been important to the housewife.

Despite these drops in food prices, the cost of food was higher, compared with pre-war levels, than that of apparel, rent, utilities, or housefurnishings. For all commodities combined the consumer to-day is paying about 70 per cent more than he did in the pre-war years from 1935 through 1939.

There has also been a decline in recent months in wholesale prices and these declines have also been centered largely among food items. The wholesale prices for all items other than food and farm products remained unchanged at 53 per cent above the 1926 level during the final months of 1948. Further decreases in wholesale food prices occurred in the first two weeks of January.

Finance With the presentation of the largest peacetime budget in history, the President also turned over to Congress the problem of financing these huge proposed expenditures. Some tax changes are a certainty, but considerable doubt exists concern-

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BUSINESS IN MOTION

To our Colleagues in American Business...

A rather recent development in the housing field is the combination screen and storm window. This is installed permanently, and greatly eases the otherwise difficult job of changing from screens to storm windows and vice versa. An exceedingly interesting new window of this general type has just been shown to Revere because it is made of a Revere brass.

The new window is entirely brass-framed, and fits flush into the house window, making it wind-and-weather tight. It has two brass-bound glass panes sliding in brass channels and held firmly in place by a simple brass slide. These panes, either or both, can be removed by hand in a few seconds from inside the house, and a screen panel substituted. At the bottom of the window is a narrow brass insert which can be removed if only a small amount of ventilation is desired. An additional feature is the provision of a slip joint with $\frac{5}{8}$ inch play to take up expansion and contraction such as sometimes occurs, particularly in new houses, and to permit adjustment to older houses whose windows may not be quite true or uniform in dimensions.

Brass is a generic term, because copper and zinc can be successfully alloyed in various proportions. Thus there are many brasses. In addition, each is available in different tempers, gauges and the like. The manufacturer of this window said that he had always regarded brass as a quality material, and never thought of using anything else. Since the method of

fabrication requires severe forming, including some 180-degree bends, he came to Revere for assistance in selecting the right alloy, temper and annealing technique. The result is a window that is good looking, with a golden red color. Under difficult weather conditions, as at the seashore, it stands up and should outlast the house. Naturally, it cannot rust, rot, or warp.

Revere's collaboration with the window manufacturer is typical. When requested, we are delighted to tell all we know about our many metals, not only the brasses, but also bronzes, coppers, and aluminum alloys. These are made in various forms, including sheet and strip, bar, rod and wire, forgings, and extruded shapes. The latter, incidentally, in brass, copper and aluminum, have many architectural uses, including windows, thresholds, hand rails and the like.

We regard every material as having its own advantages, many of which are not shared with other products. That is why there are so many different Revere metals and alloys, offering a wide choice. This diversity of products, and complete knowledge about them, is customary in American industry. No matter what any supplier makes, he is well informed about it, and is only too glad to share his knowledge. After all, his customers make it possible for him to increase his business and his knowledge. In other words, you pay for both experience and materials. Are you using both?

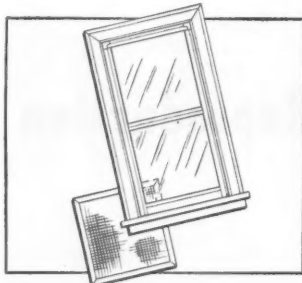
REVERE COPPER AND BRASS INCORPORATED

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ing the tax program that will finally be adopted. This is likely to be reflected by cautious trading in security markets until the tax outlook is more certain.

Stock prices, which had dipped at the end of the year, rose moderately in the first two weeks of January. The volume of trading in the New York Stock Exchange was less than the 870,000 share daily average of 1948. This drop in trading was partly in anticipation of the President's budget message.

Failures Business failures rose to 531 in December bringing the year's total to 5,252, the highest number since 1942. Although failures in 1948 increased 51 per cent from the preceding year, the rate of increase was well below the 1946-1947 rise of 208 per cent. Slightly less than one-half as many concerns failed as in pre-war 1940 when 13,619 were reported.

Current liabilities involved in failures also increased in December; the \$310,566,000 for the year was the heaviest volume since 1935. Casualties in all size groups were more numerous than in 1947. The sharpest rise, 69 per cent, occurred in the \$5,000-\$25,000 liability group. The smallest increase was 7 per cent among failures involving liabilities of \$100,000 or more. However, exceptionally large failures were more numerous than in any year since 1935.

The FAILURE INDEX, relating failures to the total business population, reflected an average of 20 failures for every 10,000 businesses in operation in 1948. This was above the 14 a year ago, but under the 63 in 1940.

BANK CLEARINGS—INDIVIDUAL CITIES (Thousands of dollars)

	December 1948	December 1947	% Change
Boston	2,126,383	2,260,345	- 6.3
Philadelphia	4,404,000	4,342,000	+ 1.4
Buffalo	387,458	395,951	- 2.1
Pittsburgh	1,534,280	1,374,208	+11.6
Cleveland	1,606,760	1,512,798	+ 6.2
Cincinnati	843,105	844,105	- 0.1
Baltimore	1,001,726	993,722	+ 0.8
Richmond	591,110	577,584	+ 2.3
Atlanta	1,120,000	1,050,000	+ 6.7
New Orleans	592,004	527,617	+12.2
Memphis	505,824	487,481	+ 3.8
Chicago	3,631,551	3,445,530	+ 5.4
Detroit	1,848,414	1,605,832	+11.0
St. Louis	1,325,487	1,355,955	- 2.2
Louisville	615,342	581,520	+ 5.8
Minneapolis	1,177,816	1,138,457	+ 3.5
Kansas City	1,517,516	1,453,563	+ 4.5
Omaha	560,003	541,237	+ 3.5
Denver	494,502	478,765	+ 3.3
Dallas	1,130,530	1,070,350	+ 5.6
Houston	1,005,003	875,361	+14.8
San Francisco	1,878,203	1,851,195	+ 1.5
Portland, Ore.	650,825	635,182	+ 3.0
Seattle	520,417	505,028	+ 3.0
Total 24 Cities	31,086,628	29,072,785	+ 3.7
New York	36,431,750	37,730,433	- 3.5
Total 25 Cities	67,518,378	67,712,218	- 0.3
Average Daily	2,596,861	2,604,316	- 0.3

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Monroe presents its new 8-column **electric** adding machine with **direct subtraction** . . . at a price that will appeal to every business familiar with Monroe high standards. The same brilliant performance . . . the same sturdy, high-quality construction, and the same features that made the larger-capacity Model 410 an instant success. **See and compare!** Finger-ease keytops...no-glare colors...**"Velvet Touch"** operation . . . and ample capacity for a wide range of work. Sold only through Monroe-owned branches and backed by a nation-wide factory-trained service organization. Monroe Calculating Machine Company, Inc., Orange, N. J.



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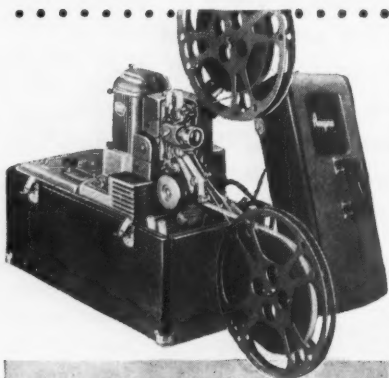
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HERE *and* THERE in BUSINESS

WHAT'S NEW AS OBSERVED BY THE AGENCY'S REPORTERS

Crack-Free Molds—A new method of preparation which prevents cracks and distortions in molds for plastics is announced by Westinghouse Electric Corporation.

Almost one-third of all molds for Westinghouse plastics are formed by hubbing, in which a hardened master die is forced into a block of soft steel to form a cavity of the required size and shape. In place of the soft, low carbon, low alloy steels previously used, Westinghouse engineers have developed an alloy steel which is soft enough to permit easy hubbing, but which possesses properties which allow it to be gas carburized in an Ammogas furnace, in an atmosphere of hydrogen and methane. It then is hardened by cooling in the protective cooling chamber. The resulting mold is clean and bright, free from cracks, and virtually free from distortion.

Dictating Machine—The "Disc Edison Voicewriter," product of Thomas A. Edison, Inc., presents a variety of new features which facilitate recording and permit high fidelity of reproduction.

Completely enclosed to protect the sensitive recording mechanism from dust and atmospheric changes, the machine is 11 inches wide, 13 inches long, and 9 inches high. To obtain constant

current for smooth disc recording, it is equipped with a motor-rectifier control.

A fidelity of voice reproduction is provided over an unusually wide range of frequencies. One has a choice of three playbacks—soft and confidential through the microphone used for dictating; at the flip of a switch, louder reproduction through a permanent magnet built into the instrument; and playback through any loud speaker, enabling reproduction of dictated messages at conventions and meetings.

The hazard of dictating to an empty machine is eliminated as a warning signal flashes until the record has been inserted, the lid closed, and the machine in dictating position. A further feature is automatic record positioning. After the record receptacle has been flipped open, the record slid within circular guide rails, and the cover closed, depressing of a lever causes the tapered positioning device to ease through the hole in the center of the record, centering it and locking it in place.

Filing—The vital importance of modern, simplified filing in preventing the misplacing of business records may be dramatized in your office through a fast-paced motion picture in color, prepared under the supervision of Systems Division experts of Remington Rand Inc.

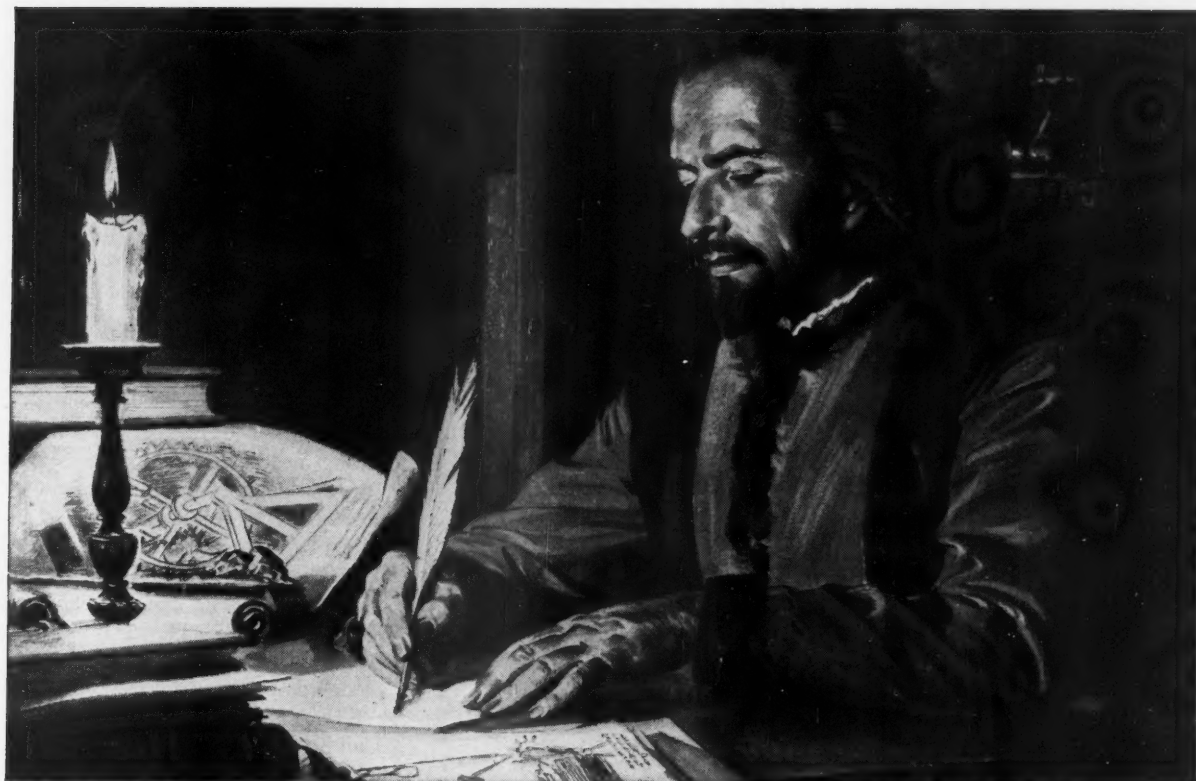
Entitled "It Must Be Somewheres," the film hinges upon the discovery that an important paper, which should be in the files, cannot be located because of outmoded filing. The consequent delay in producing this paper almost results in the loss of a valuable customer. Running 28 minutes, the story skillfully highlights the contrast between the old-fashioned, poorly lighted, badly located, and crowded file room with its obsolete equipment, and a scientifically laid out and correctly operated filing department. Solid instruction on what is required for good filing and finding is seasoned with laughs.

A free showing of this film may be arranged through any Remington Rand branch office, with the services of an experienced operator and all necessary



LEONARDO DA VINCI WRITES A LETTER OF APPLICATION—AND GETS THE JOB!

His Technique Is Still Effective Four Hundred Years Later



LEONARDO DA VINCI, perhaps the most versatile man who ever lived, once wrote to the Duke of Milan seeking employment.

He cited his ability to construct bridges, cannon, mortars, subterranean passages, armoured wagons, catapults, mangonels, trabocchi — *"and if any of the aforesaid things should seem impossible or impractical, I offer myself as ready to make trial of them in your park or in whatever place shall please Your Excellency, to whom I commend myself with all possible humility."*

Naturally, Da Vinci got the job; the man who has the best qualifications always does.

In business and industry, the more fundamental and comprehensive your knowledge, the better are your chances of forging ahead.

Make no mistake about it—business today is a new thing. The old rules don't apply. Production, marketing, finance and accounting are all subject to a changed set of conditions. The emphasis is on the correlation of major functions.

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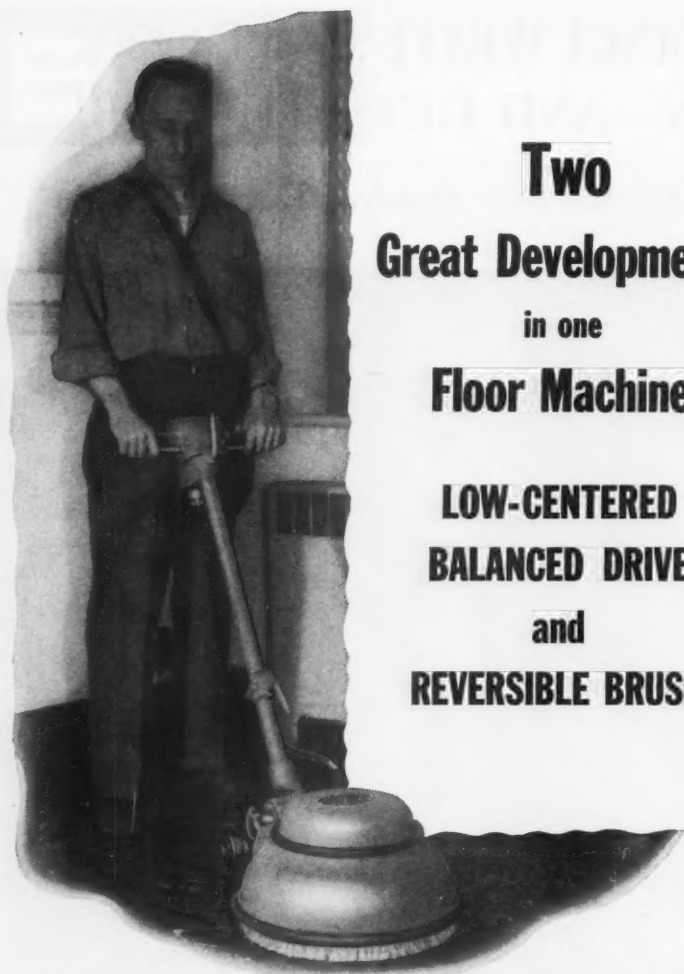
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"Greatest development in floor machines since they made 'em electric" — that's what floor maintenance experts are saying about this new Corbin Floor Machine. They're talking about its incredibly low center of gravity, its smooth finger-tip control, its low over-all height . . . and its reversing brush feature that keeps bristles free from matting.

Years of scientific research and development are behind this radically new concept in floor machines . . . which makes the motor an actual part of the machine rather than a separate unit . . . provides superb balance and ease of operation, amazingly increased efficiency.

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will be interested in other important facts about the new Corbin Floor Machine — and how it can be operated with less fatigue—results in better floors, reduces floor maintenance costs.

WRITE FOR FACTS

about Corbin's heavy-duty reversible brush models—a new twin-brush machine—and accessories for every type of floor maintenance. Corbin Screw Division, The American Hardware Corporation, New Britain, Conn.



FLOOR MACHINES

equipment provided. Showings will be conducted before departmental groups in large companies and before the entire personnel of smaller firms as well as before service clubs, and trade and professional organizations.

Freight Car—Convenience and reduced costs in shipping granular products which require a high degree of purity is provided in a new compartment type of freight car, the "Trans-Flo," developed by the General American Transportation Corporation, Chicago, in collaboration with the Fuller Company, Catasauqua, Pa. The car was designed at the instigation of the National Biscuit Company.

Granular material, such as flour, cereal, plastics, and chemicals, can be shipped loose. Flour, for example, can be loaded directly from the mill stream through a chute into the compartments, constructed of non-contaminating metal. The car has 12 separate hoppers contained within a framework of steel sides and end members. Double hatches are provided at the top of each of the hoppers. The inner hatch contains a special filter device. The outer seals the opening. The car is unloaded by an air suction device at the bottom of each hopper.

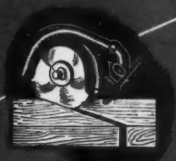
The Trans-Flo car makes greater loading possible. While the average box car loaded with sacked flour holds between 30 and 40 tons, the new car holds between 50 and 60 tons of the loose product.

Preserving Woolens—Moths, the traditional enemy of woolens both in the consumer goods and industrial equipment fields, are meeting their match in a chemical which may be easily and cheaply applied. This is "Boconize," perfected after 12 years' research and now being introduced to all branches of the woolen trades by the Bocon Chemical Corporation, New York.

Offering protection against moths and carpet beetle larvae, Boconize is being applied to men's and women's coats, suitings, sweaters, hats, to furs, blankets, and other consumer soft goods, as well as to piano felts, the felt around the baseboard in buildings, and the blankets for printing presses.

The odorless, colorless chemical af-

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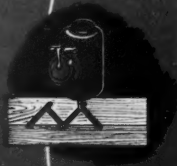
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This one machine actually does the work of many. In less than a minute, you change the cutting tool on a DeWalt, and you have another machine!



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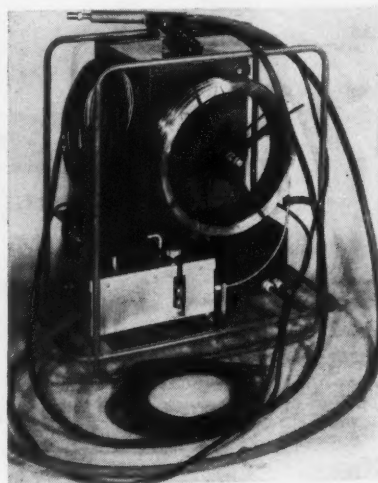
fects animal protein fibers in the same manner as a colorless dye and there are a variety of cold applications. It can be applied at any time before or after dyeing in one of the regular wet applications. It likewise can be used after the material has been made up into piece goods. While the Bocon Chemical Corporation makes the chemical, it licenses woolen mills to process the goods.

The cost of the Boconize entering the fabric in the protection of the average man's suit is about 14 cents. The additional labor involved for applying it is slight and in a large percentage of cases no extra equipment is involved.

One formula, Boconize LCB, is principally for non-washable fabrics. When the substance is properly applied, the material will be impervious to moths after 30 or 40 commercial dry-cleanings and five or more soap and water washings. The other formula, Boconize WD, is for washable woollens such as blankets, sweaters, socks, and so on. After its application the material will be mothproof following 30 or more commercial dry-cleanings and 15 to 25 soap and water washings.

Boconized garments have a button attached, which is coded so that the date can be established when the material was processed. A retail division has been established for the Boconizing of finished goods such as sweaters or blankets.

Welding—Heavy sections of aluminum and aluminum alloys may be welded at wire speeds ranging from 100 to 300 inches per minute in the



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7 7 5 6 2
7 7 5 6 2
7 7 5 6 2

12.8% INCREASE

2 3 0 6 4 *

**MULTIPLIES ELECTRICALLY
...and PRINTS**

4 9 5
1 4 5
1 4 5

4 1 5 5 *

**ADDS and SUBTRACTS
...and PRINTS**

9 5 2 3 6 8 0 4 7 1 2 5 3
8 7 2 5 6 4 0 0 1 2 5 4

1 0 3 9 6 2 4 4 4 7 2 5 0 7 5
2 4 4 4 7 2 5 0 7 —

1 0 3 9 6 0 0 0 0 0 0 0 0 0 *

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CURRENT MONTH'S SALES
PRIOR MONTH'S SALES

AMOUNT OF INCREASE
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4 DOZ. @ \$4.95/DOZ.

15 ITEMS @ \$1.45 EACH

AUTOMATIC TOTAL
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ADDS

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SUBTRACTS
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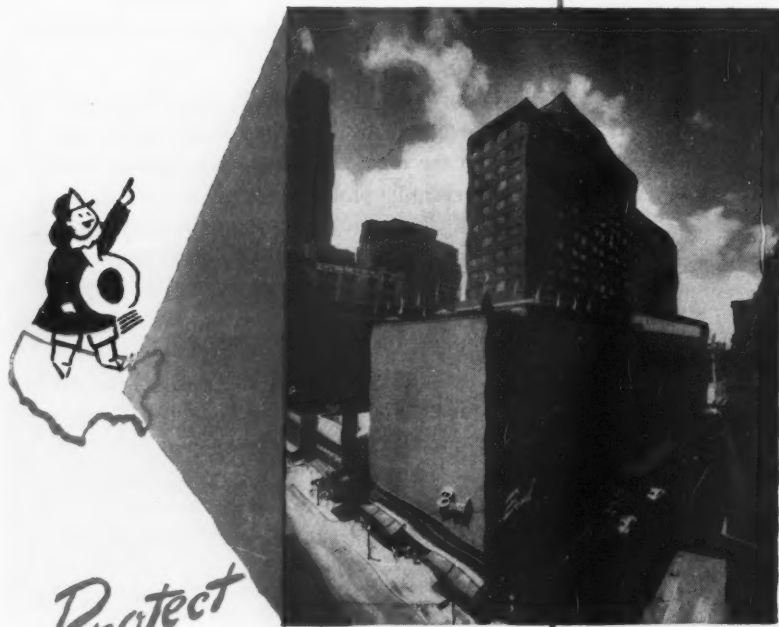
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"Aircomatic" process originated by the Air Reduction Sales Company.

Metals are shielded from the air by an inert gas in this metal arc method of welding, while the conventional non-consumable tungsten electrode is replaced by a current carrying, continuously fed wire which is used as the filler metal.

The welds may be made in flat, vertical, and overhead positions and in all of the standard joint designs in these positions, a feat not possible to accomplish before in welding aluminum. The Air Reduction Sales Company believes that this is the first time that a continuous wire feed has been used in practical welding in the vertical and overhead positions.

Automatic equipment employing the same principles as the manually operated gun is being perfected. Likewise under development in the company's research laboratory is the application of the process to metals other than aluminum and aluminum alloys.

Mailing Piece—A unique promotion by mail for a scratch resistant material recently was conducted by the United States Plywood Corporation. To prove that *"Kalistron"* is scratch and scuff proof, a blotter-sized mailing piece containing a nail file and a sample of this furniture and wall covering was sent to potential customers. Recipients were invited to make their own scratch test.

Forming Stainless Steels—Producers of metal equipment may gain a better appreciation of the adaptability of chromium nickel stainless steels to all modern processes of forming through a new book which presents a detailed description of modern forming procedures as practised in the fabrication plants of the United States.

Co-operating with the International Nickel Company, Inc., 67 Wall Street, New York City, in gathering the material for *"Forming of Austenitic Chromium Nickel Stainless Steels"* were the principal stainless steel producers and fabricators, who provided information not hitherto exchanged. The book is available from the International Nickel Company for \$4 a copy.

Processes discussed include bending and straight flanging, forming of curved

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THIS paper cutter can slice a five inch log as quickly and cleanly as you might snip a string. If this worker's hands carelessly fell beneath the blade he would be permanently crippled. But he will stay on the job because of an ingenious idea . . . it takes BOTH hands, pulling separate levers at the same time, to lower the blade. Efficiency might say one lever . . . Safety orders two!

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sections and tubing, deep drawing, die forming, forming of contoured-flanged parts, and forming by miscellaneous methods.

Teletype—A private wire teletype network has been put into operation by General Motors Corporation which connects its plants in 46 cities throughout the United States and Canada as well as providing connections to many other points in these areas.

This expedites communications between the various plants, offices, and warehouses, and between them and the Central Office in Detroit. The two-way plan, permitting stations to send and receive simultaneously, can handle approximately 1,360,000 words daily. All messages are routed through the Central Office to their destination.

Outdoor Sign—To help promote better industrial and employee relations, the American Pulley Company, Philadelphia, has installed a large changeable copy sign on which new messages to workers can be shown each day. The letters, four inches high, are slotted and attached to horizontal rods, permitting easy manipulation. Both the sign and changeable letters are products of Wagner Sign Service, Inc., Chicago.

Address Plates—Clerical labor is reduced and time shortened in the preparation of address plates for mailing lists by the automatic Graphotype machine, manufactured by the Addressograph-Multigraph Corporation.

This embosses the names and addresses on Speedamat plates by sensing holes in a perforated tape, prepared by an electrically operated perforating punch. Operating speeds have reached 200 to 300 completed plates per hour. The speed of the tape-operated Graphotype method of plate preparation is estimated as more than twice manual operation speeds.

Besides speed, another advantage of the automatic Graphotype is that the tape-producing mechanism need not be in the same office as the plate-making machine. And one clerk can operate a battery of such Graphotype machines as he merely loads each device with a supply of blank plates, starts the perforated roll, and removes the completed work.

FOUNDATIONS

(Continued from page 17)

for which he gets a charitable deduction. The foundation will pay no taxes to the Federal Government. Smith, of course, might organize the foundation so that he fully controls its activities. Or the control can rest in the hands of his family or friends. Smith might now personally sell to the foundation all of his Smith Corporation stock. Assume that the sales price is \$1,000,000, payable over a 20-year period. If the Corporation earns \$200,000, it will have about \$120,000 left after payment of annual taxes. This money can be transferred as a dividend without tax to the foundation. It pays Smith \$100,000 annually. Smith would then receive that as a payment for property and be subject only to a 25 per cent tax, since the transaction would be called a capital gain. But if Smith had taken the \$120,000 right out of the business as a dividend, he would have had but a fraction of it left—assuming that he was already in a high income tax bracket.

Or assume that Smith does not transfer the common stock, but sells the foundation a preferred stock. Here, too, he might get a capital gain and have more left over than would be secured by the ordinary dividend route.

Similarly, men who have sporadically or cyclically high incomes can make their donations to foundations in the high income years when they get substantial tax benefits from the contribution deductions. The foundation can hold the funds and distribute them in years when the donors may be unable to do so.

Many men engaged in highly successful stock, realty, oil, and other speculations may not wish to stay "long" on their speculative holdings. They may anticipate a sharp decline in values. Yet the tax laws prevent a sale without incurring substantial taxes for the appreciation. By giving the property to a foundation they can avoid the risk of a drop in values of speculative holdings. For the foundation can sell immediately on receipt of the gift without incurring a tax, precisely at the time the donor takes a substantial contribution deduction.

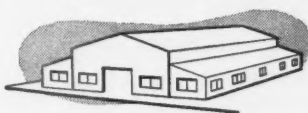
Foundations can become great finan-

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Versatile is one good way to describe McCloskey custom-made single-story industrial buildings. They are being built to suit a wide variety of conditions in all parts of the United States. First—we can build you a simple single-story building with any width aisles, in any length—without interior columns. It will be our exclusive Rigidsteel design which employs no overhead trusses.



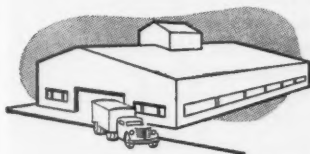
Or, perhaps you require a building with a lean-to on each side. Rigidsteel design is easily adapted. You still enjoy freedom from overhead trusses—have extra headroom with less cubage to heat. Maintenance is easy—all surfaces are accessible for painting.



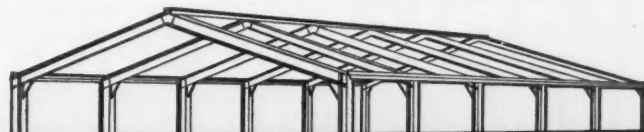
If your operation requires use of two or more aisles the Rigidsteel design applies readily. Roof supports for additional aisles are added to one column. This is a distinct advantage. It eliminates necessity of adding extra columns which waste space between aisles as when standard buildings are joined to form a double or triple aisle building.



If you require a building of eccentric design you will find our Rigidsteel frame particularly suitable. For example, the fertilizer mixing plant at left was built to carry an overhead conveyor system and elevators. The extra headroom inherent in this design provided unobstructed space for the conveyors and permitted high stacking of material.



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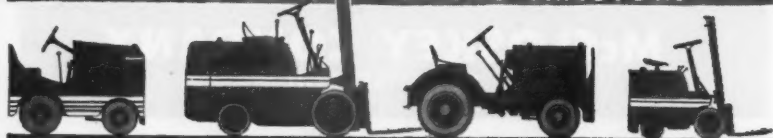
"Fresh As A Daisy" is the spirited slogan in the huge, immaculate *Kellogg* plant—and the efficient handling of materials in warehousing, processing and moving cereal foods to the world's breakfast tables, helps to deliver them to you—"Fresh As A Daisy."

To assist in speeding these fresh, crisp products on their way, thirty-one Clark fork-lift trucks each operate on an average of twenty-one hours per day. In this fashion, modern materials handling methods and machines contribute to a half century of progress and achievement in the manufacture of Corn Flakes.

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cial blood-banks upon which the needy and welfare institutions may draw in times of great need. A founder can often, with modest contributions, sow the seed from which great foundations grow. He can enlist others to support his good work (usually beginning with other wealthy members of his own family) by making contributions to the foundation he has created.

Keeping Control of Property

By giving to a foundation the donor can keep many attributes of his wealth. This comes by designating the administrative management of the foundation. Or control may be resumed by using the power of his influence, especially by the promise of future contributions to guide the investments of the foundation. If these consist of shares of stock, he controls them in almost every respect as though he still owns them, except that he does not receive the dividends. Some donors exercise control that extends even further. They appoint relatives as directors of the foundation to insure control by persons closely acquainted with the desires of the donor. Some arrange for the administrators to be family members who receive substantial compensation³ so that the contributed wealth really yields substantial income. Few go as far as a Wisconsin man who established a research foundation all the income of which went to pay the salary of the research director who, in this particular instance, happened to be the donor's wife.

One man who created a Rhode Island foundation later went into a new business. He used the trust to borrow money to buy textile mills that were later sold to his company. Thus, he benefited materially from the capitalized credit of the foundation he created.

Some concerns receive full research service from foundations their owners have established. Others, like the Altman Foundation which promotes social, physical, and economic welfare for the employees of B. Altman & Company, have the benefit of good-will and

³ For example in *Orton Ceramic Foundation*, 9 TC 533, the Tax Court of the United States considered a foundation formed to: (1) continue manufacture and sale of pyrometric cones; and (2) provide a research organization for advancing ceramic arts and industries. From it, a widow received \$42,000 and an annuity of \$350 per month. The Court approved the foundation as a tax exempt scientific organization. It held that payments to the widow were not the real purpose of the foundation. They were a charge on the assets which had to be paid to free the assets and income for use in the scientific aims of the foundation.

lower personnel costs arising from the activities of the foundation.

Since philanthropic corporations can own business enterprises, some men have given ownership of their business to foundations. But they have protected and even increased their substantial incomes by employment contracts with the foundation for managing it.

Sometimes real property is given away to a foundation and rented back by the business corporation of the donor. Often, real estate taxes are saved in the process and capital gains tax and estate taxes avoided.

In short, many of the benefits and uses of wealth are retained even though it has been given to a tax-exempt philanthropic foundation.

Most important is that the foundation can be used to protect from tax erosion that capital which can be used for purposes formerly accomplished out of high incomes. Such incomes are no longer available because they go to the Federal Treasury. For example, foundations can be established for industrial research. They in effect have taken over part of the function formerly performed by entrepreneur capital.

Much of the pressure for the use of foundations arises from the fact that wealth can only be built to-day by building up a growing business or achieving capital appreciation. High income taxes prevent the accumulation of any kind of a liquid fund out of dividends and salary adequate to finance the estate tax on transfer of the entire business to one's family. The foundation is a method to preserve this capital appreciation. Despite the gift to the foundation, control on the property can be fully retained.

Aid to Employees

Court decisions permit us to set up charitable foundations for the benefit of the employees of a *single* corporation. The cases tell us these charitable organizations can be divided into three groups—those where the purpose is to help employees:

1. When they are in need or disabled.
2. Irrespective of their need.
3. When the employees make contributions to the fund.

Can you have a charitable organization for a definite and comparatively small class? For example, are you

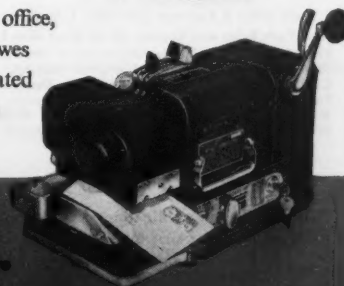


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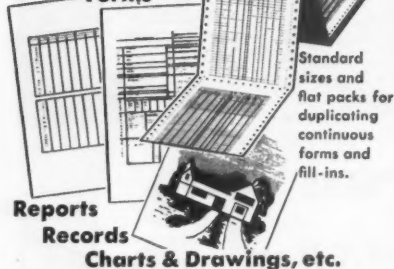


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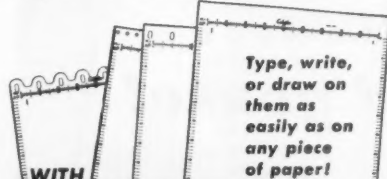
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permitted to give the contributions only to the employees of a single corporation? In a leading case, a trust was established for the benefit of employees of one corporation. The government argued that the charity was too restricted. The beneficiaries were limited to the employees of a *single* company. The court held that the gift was *not* for particular individuals, but to a shifting class, and was therefore *not* a private bounty. The employees of the company at the time numbered 1,470. They and their dependents totalled 6,000 persons, and so constituted a considerable portion of the public. A trust for their relief met the general tests for a public charity in the legal sense.

There is apparently *no* case denying tax exemption because the benefits are to go to the employees of a single company.

Charity Clearly the Motive

Where the objectives of an organization are to extend aid to employees in cases of death or sickness or distress, it is clear that the motive is charitable. One of the commonest and most commendable forms of charity is aiding the sick, the afflicted, and those in distress⁴.

If employees contribute to the charitable corporation, we get a special problem. The extent of the employees' contribution is very important. If em-

⁴In one case (and there are others like it) a trust was created by will bequeathing the stock for the benefit of corporate employees. The dividends were to be used to supplement the wages of these employees when less than a living wage was paid. Provisions were made for the widows and orphans of the employees, with assistance to the employees during periods of unemployment. The court held that the purposes of the trust were clearly charitable. The disbursement of benefits depended upon need.

Another case involved a trust established to lend money to or to assist employees, former employees, their families, and dependents. The trustees had the right to use their judgment to aid those they deemed needed assistance. The court held that the benefits to be disbursed were based on need. Therefore the purposes of the trust were charitable.

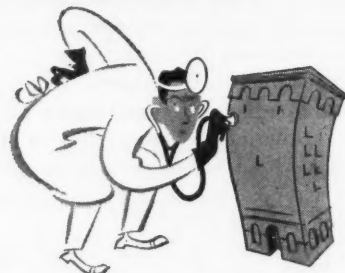
Where an organization is established only to help the employees of a charitable corporation, the court may regard the benefits as going to the charitable corporation itself rather than to the employees.

In one case, an individual left money by will to provide for the old age or permanent disability of the employees of the Henry Street Settlement, a charitable organization. The court said: "We think that a gift to provide pensions or annuities for charitable workers is in the same category with a gift to a charity for the payment of salaries."

Where employees of the corporation are helped without reference to their need, the courts have a factual problem. They must find whether the organization really is a charitable instrument.

One case concerned a bequest to provide special nurses and special nursing care for graduate nurses who were patients of the Presbyterian Hospital in the City of New York. The court disregarded the fact that the hospital was a charitable corporation. It determined the exemption on whether the purpose for which the trust was created was an exclusively charitable purpose. The Treasury argued that any graduate nurse, regardless of her ability to pay, could receive the benefits. But, said the court, the fact that some recipients of benefits of the trust may not be needy or destitute is not sufficient, in itself, to hold that the trust was not created exclusively for a charitable purpose. The purpose of the trust was really charitable. It did not matter that its benefits could accrue to some persons who were not extremely poor.

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ployees contribute for their own benefits, they have destroyed the charitable purposes of the foundation. This is to be avoided, if a tax deduction for the gifts of other persons is desired.

Charitable Purposes of Trust

Assume one wants to help employees of a particular company. Arrange for it to set up a trust to carry out the type of purpose approved by the courts. Then it can be agreed to give the trust gifts and get a deduction up to 15 per cent of an individual's annual adjusted gross income or 5 per cent of a corporation's net income. The purposes might include:

1. Caring for employees in sickness and in time of need.
2. Providing for their families in time of death.
3. Granting pensions to those employees who are chosen for retirement because of age or infirmity.
4. Awarding scholarships to employees on a system of merit in institutions giving business and technical education.

If the trust has these purposes, then cash, securities, or other kinds of property can be given. It may also solicit and accept this money or property from *others than the employees*, for these purposes. It can then:

Invest and reinvest it.

Hold it uninvested until the trustees are ready to disburse.

Pay the reasonable expenses for maintaining the trust.

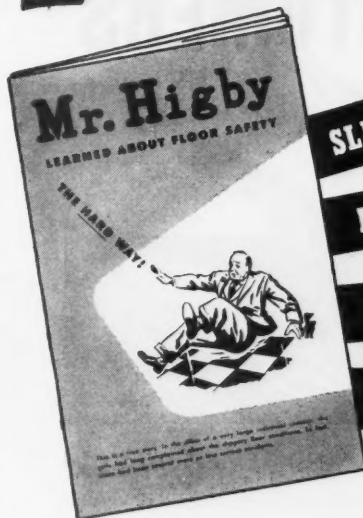
But in the end, it must apply the principal or income or both *solely* for the four purposes already listed.

The agreement by the corporation establishing the foundation should provide that no part of the net earnings of the foundation are to benefit anyone outside the groups in the previously described charitable purposes. It should also bar propaganda activities or those designed to influence legislation.

The trust might name the initial trustees. It can also indicate that the board of directors of the employing corporation will name the successor trustees. Of course, the trust must be irrevocable and generally comply with the rules for an acceptable trust.

If individuals give to charity, tax economy suggests that they ought to exclude immediately from their own income all of the earnings of the prop-

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erty put into the trust, and at the same time, get the full 15 per cent charitable deduction over as long a period of years as possible.

Both of these objectives are to-day accomplished by a combination of a trust and the charitable foundation. Tax men use the following steps in the order named:

1. Create a valid charitable or scientific foundation.

2. Establish an irrevocable trust. Provide that during the life of the grantor all income received by the trustee upon property delivered to the trust is to be paid over to the charitable foundation. Upon the death of the grantor, provide that the corpus is to be returned to his estate.

At this point a gift to the foundation has been made of *only* a life interest in the income of the property transferred. The full value of the life interest may be more than the 15 per cent of the individual's adjusted gross income—the maximum income tax deduction for charitable purposes.

At this point a so-called reversionary interest in the property transferred, has been retained.

3. Each year assign *just enough* of the trust reversionary interest to the charitable foundation⁵. That means assign at least 15 per cent of adjusted gross income in each year.

4. One must guard against estate tax in the event that there is some reversionary interest left at the date of death. That requires providing by will that any interest in the trust at date of death is to be paid to the foundation.

Criticism of Foundations

Family and other foundations have been criticized for many reasons.

Small foundations are too costly to administer, with consequent loss to the potential beneficiaries.

Those who administer them are not equipped with the knowledge and experience that makes for wise investments of the funds or for effective distributions that best perform the purposes of the foundation.

They give the burden and responsibilities of foundation management to those who ought to devote their talents and energies to business.

The philanthropic purposes of the

⁵ See footnote on page 42.



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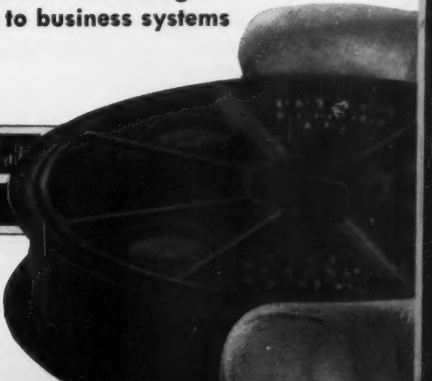
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Statement of Condition

DECEMBER 31, 1948

RESOURCES

Cash on Hand and in Banks	\$214,987,136.92
U. S. Government Obligations	319,825,002.18
State, County, and Municipal Bonds	40,084,605.04
Other Bonds and Securities	7,686,647.14
Stock in Federal Reserve Bank	983,800.00
Loans and Discounts	377,496,804.78
Bank Premises and Equipment	8,166,213.11
Other Real Estate	1.00
Customers' Liability under Letters of Credit and Acceptances	4,685,969.33
Accrued Interest Receivable and Other Assets	4,346,499.76

Total Resources . \$978,262,679.26

LIABILITIES

Deposits	\$927,883,808.36
Letters of Credit and Acceptances	4,729,034.33
Reserve for Interest, Taxes, etc.	3,691,093.47
Other Liabilities	4,198,088.52
Capital Stock	
Preferred	\$7,268,850.00
Common	\$9,480,034.55
Surplus	16,043,075.45
Undivided Profits	4,968,694.58

Total Liabilities . \$978,262,679.26

United States Government and other securities carried at \$99,002,003.43 are pledged to secure U. S. Government Deposits, other public funds, trust deposits, and for other purposes as required or permitted by law.

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foundation become outmoded and useless because society and charitable needs change rapidly. An example is the case where one man left two million dollars to care for daughters of railroad workers killed in Pennsylvania. Another is the famous "Sailor's Snug Harbor," founded in 1801 as a home for aged, decrepit, and wornout sailors who had been to sea on sailing vessels. Though the income of the holdings runs into many millions, it is likely that few seamen can be found eligible for admittance.

A multiplicity of small foundations, because of lack of knowledge or published reports, often work at cross purposes with each other and often defeat the very purposes of their philanthropy. Many overlap in their efforts.

Tried to Overcome Defects

Many foundations have tried to overcome these defects in one way or another. The Rosenwald Foundation, for example, is required to spend its capital within twenty-five years. However, the majority of foundations spend income only, or save some of the income. The Duke Endowment, for example, is specifically directed to accu-

⁵ In the year of transfer to the trust, a gift is made to charity of a so-called life interest. The valuation tables used by the Treasury are given below. They assume a 4 per cent return. Therefore, upon a gift of 500 shares of United States Steel stock, valued at \$60 per share, the amount of the gift in the year of the creation of the trust, depending upon the age of the grantor, would be:

Age	Value of stock transferred	Value of gift is
50	\$30,000	\$14,964.38
55	30,000	13,173.46
60	30,000	11,397.68
65	30,000	9,402.62

Assuming an adjusted gross income of approximately \$5,000, the amount deductible in the year of the gift is \$750.

In each year after the year of the original transfer, the grantor would seek a \$750 deduction. He gets this by assigning to the charitable corporation that much of his reversionary interest. Assuming that the stock continues to have a value of \$60 per share, the following percentage of the reversionary interest in the trust would have to be assigned to the charitable corporation in the first year after the original transfer:

Age	Value of stock transferred	Value of reversionary interest	Approximate percentage of reversionary interest required to be assigned
51	\$30,000	\$14,793.30	5.0
56	30,000	16,534.80	4.5
61	30,000	18,348.00	4.1
66	30,000	20,163.60	3.7

This process then can be repeated each year. Bear in mind that the percentage of the reversionary interest required to be assigned will differ from year to year. There are two variables: the value of the stock, and the value of the reversionary factor (the latter increasing in value each year as the grantor grows older). Assume that in the second year after the creation of the trusts the stock is worth \$50 per share. In order to receive a deduction of \$750, the grantor then would have to assign the following percentages of his reversionary interests:

Age	Value of stock transferred	Value of reversionary interest	Approximate percentage of reversionary interest required to be assigned
52	\$25,000	\$12,611	5.0
57	25,000	14,077	5.3
62	25,000	15,595	4.8
67	25,000	17,099	4.4

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Shoe machinery, electric motors, tools and all articles for shoe and leather-ind. Offers to T.A.B., P.O.B. 264, 's Hertogenbosch, (Holland).
G. HOOGERWERE, Vlaardingen (Holland). Cable address: Egooh. Salt herrings. Export to all countries since 1869.

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INDUMEX TRADE CO., Spulstraat 210, Amsterdam. General importers—exporters, railway materials, iron, steel, industrial products, motors, machinery, medical furniture, etc. Representations wanted for tool machinery, electric and diesel motors.

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N. V. MONTAAN METAALHANDEL, Amsterdam, Paulus Potterstraat 7. Cable address: Monja. Telephone: 24692, 23291, 23940. Wholesale dealers, importers and exporters of non-ferrous metals, minerals, chemicals and ferro alloys.

V. S. OHMSTEDE, PAULUS POTTERSTRAAT 4, AMSTERDAM, HOLLAND. Importer and distributor of tool machinery exhibiting, April and September, Industrial Fair in Holland seeks agencies for lathes, millers, grinders, surface grinders, sheet working machinery, polishing, and grinding machines. Annual (1947) turnover \$600,000.

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multate one fifth of its annual income until the income equals the original principal. This tendency to accumulate property and freeze it gives rise to the criticism, often unfair, that the "dead hand" of wealth dominates the economy and renders sterile great blocks of capital.

The answer to most of these criticisms has come in the form of institutions like the Golden Rule Foundation and the various community trusts.

A community trust is, in essence, a foundation unifying a number of trust funds of varying sizes. It is administered by a distribution committee that is quasi-public in character and whose members are respected leaders in the community. Though the funds are invested in property chosen by the donor, and the donor's wishes are generally followed in the disbursement of funds, the foundation cannot be considered, in any sense, a puppet of the donor.

These organizations are so constructed that they insure a large measure of public but non-governmental control. The criticism of a "dead hand," by which property is frozen against the interests of a fluid society, is avoided. This is so because the trustees have the power to utilize the income when

the original purposes of the funds are rendered obsolete by the march of events. Also, these organizations apply large scale administration efficiency to even small philanthropies.

The New York Community Trust furnishes a model for study. It provides for the administration of some 76 charitable funds and for more that will come in due course. The founder of each of these funds has placed it in one of the 16 banks and trust companies eligible to act as trustees. All of the funds are managed as part of the trust, under specifications of a basic declaration of trust.

The operating plan provides that the trustee institution selected by the founder shall be responsible for the fiscal management of the fund. But all charitable distributions are authorized by a central distribution committee. This committee comprises eleven persons. Of the eleven, five are named by the trustees, and one each by the Senior Judge of the Federal Circuit Court of Appeals, the Mayor of New York, and the presidents of the Association of the Bar, Academy of Medicine, Brooklyn Institute of Arts and Sciences, and Chamber of Commerce of the State of New York. Administrative expenses

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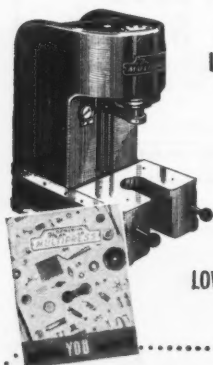


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of the operation of the Community Trust are payable from the distributable funds of the Trust.

Any founder may direct whether income only or principal shall be distributed. He may suggest the names of particular charities he wishes to assist. His wishes are weighed and generally followed by the distribution committee. But always the committee has a right to vary the original specifications should they become "unnecessary, undesirable, impractical, or impossible."

In essence, each fund in the Community Trust is a foundation unit with its own founder, trustee, title, and purpose. The trustee is financial manager,

while the distribution committee governs disbursements and holds discretionary power to prevent the obsolescence of the fund.

The Golden Rule Foundation, like many of these community trusts and foundations, has a personality of its own. It is established as a "people's foundation" and administers benevolent funds through a central governing body. Any donor can set up his private benevolent fund to be administered by the foundation. Through this fund benefits can be given to a class of beneficiaries whom the donor would like to help except that direct giving might not permit a charitable deduction.

THE RELATIVITY OF NET PROFITS

(Continued from page 14)

prehensive studies of the Department of Commerce, have averaged 50.4 per cent of accounting corporate profits after taxes.

On the bases that average dividend yields on common stocks for this nine-year period was 5.03 per cent, and that dividends paid were 50.4 per cent of earnings, we would arrive at average earning of 10 per cent on the average market price of common stocks. This figure is accurate enough for reasoning purposes, but one must keep in mind that this earning percentage on common stocks is based on the market prices and not the book values of those stocks, which in certain years would be higher and in other years lower than market.

If we use the average earnings, which we have computed at 10 per cent, as an index of 100, we would then get the following index numbers for the aggregate accounting profits of all corporations on aggregate net worth. The 3.5 per cent earnings of all corporations in 1939 would be 35, the 7.4 for 1946 would be 74, and the 9.6 for 1947 would be 96. In not one of these years would the per cent of accounting profit reach the normal index base of 100.

It is the price of securities in a free market which determines the investment value of money. So, while at first glance, the increases in the per

cent of accounting profit on the aggregate net worth of all corporations between 1939 and 1946, and between 1939 and 1947, appear to be greater than the average per cent increase in wages, further study in which an objective base is used, would appear to indicate that in no recent year has the over-all per cent of accounting profit on aggregate net worth reached a "normal" figure.

Perhaps this chain of reasoning is not the soundest in the world. We are, of course, (a) assuming that the various schedules used in our compilations are reasonably accurate, (b) that the 1939 base of wages is a sound basis while some other objective basis must be computed for the per cent of accounting profit on net worth, and (c) we are comparing a unit in the field of wages with an aggregate in the field of accounting profits.

This same problem may be tackled in one other way. Perhaps we can with some greater degree of logic compare aggregates for both concepts. By aggregates is meant aggregate yearly wages and salaries compared with aggregate corporate accounting profits, after taxes.

In 1939 when the national income was \$72.5 billion, 63.0 per cent was represented by wages and salaries, and 6.9 per cent by corporate accounting profits.



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At the close of business, December 31, 1948

ASSETS

Cash and Due from Banks.....	\$ 487,514,146.62
U. S. Government Obligations.....	415,567,186.28
State, Municipal and Public Securities.....	93,176,481.95
Other Bonds and Investments.....	4,728,361.77
Loans and Discounts.....	560,799,245.74
Banking Houses.....	522,259.85
Other Real Estate.....	2,231,316.17
Credits Granted on Acceptances.....	15,099,478.07
Accrued Interest and Accounts Receivable.....	3,110,818.40
Other Assets.....	975,161.35
	<u>\$1,583,724,456.20</u>

LIABILITIES

Capital Stock.....	\$25,000,000.00
Surplus.....	75,000,000.00
Undivided Profits.....	10,727,058.94
	<u>\$ 110,727,058.94</u>
Reserve for Contingencies.....	4,098,963.18
Reserves for Taxes, Expenses, etc.....	2,866,416.56
Dividend Payable January 3, 1949.....	1,125,000.00
Acceptances Outstanding \$19,559,894.46 (Less own acceptances held in portfolio).....	2,887,408.78
	<u>16,672,485.68</u>
Other Liabilities.....	13,044,140.29
Deposits.....	1,435,190,391.55
	<u>\$1,583,724,456.20</u>

Securities carried at \$49,240,837.48 in the foregoing
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after taxes. The dollar figures for each of these three items increased very materially in 1946, and even more in 1947. The larger dollar amounts of wages and salaries in these two years, however, represented a slightly smaller portion of the national income, 62.3 per cent in 1946 and 60.3 per cent in 1947. The larger accounting profits for 1946 represented an increase to 7.1 per cent of national income in 1946 from 6.9 per cent in 1939. The greatly increased aggregate accounting profits in 1947 showed a moderate increase to 8.9 per cent of national income.

Dollar and Economic Income

In the first part of this study, where the underlying assumptions of accountancy were discussed, it became evident that conventional accounting profits were relative figures. They were relative because applied mathematics had not been developed to the point in accountancy where dollar income was correlated to economic income. This challenge to mathematical science was presented particularly in the field of inventory accounting and in the field of fixed asset accounting.

The studies of the Department of Commerce in the field of national income have made great contributions to our knowledge of inventory valuation by showing how much of the aggregate yearly accounting profits of corporations have resulted from changing price levels. No similar research, however, has been carried on in the field of fixed asset accountancy to show how much of each year's corporate accounting profit is due to the fact that depreciation is based on recorded facts, and not replacement values which fluctuate from year to year.

Inventory valuation adjustments for the years 1939, 1946, and 1947 were determined by the research of the Department of Commerce. The adjusted corporate accounting profits, after taxes and inventory valuation, for these years give quite a modified picture. Whereas corporate accounting profits, after taxes, represented 6.9 per cent of the national income in 1939, accounting profits after taxes and inventory valuation adjustment, represented 5.9 per cent. For 1946 the comparison dropped from 7.1 per cent to 4.3 per cent, and for 1947 from 8.9 per cent to 6.4 per cent.

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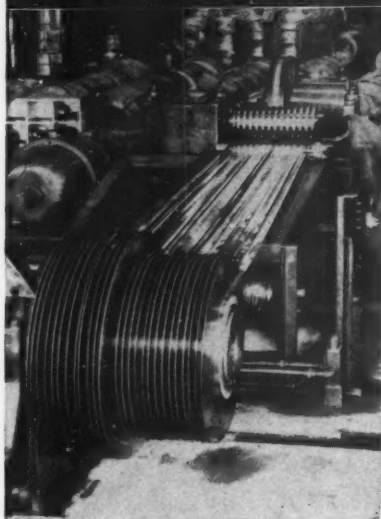
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This problem of inventory valuation and adjustment is not a theoretical one to active management. It is a very practical one. As a partial solution the International Paper Company in its consolidated profit and loss statement for the year ended December 31, 1947, made an "appropriation to reserve for inventory price adjustment" of \$12 million. Colgate-Palmolive-Peet Company set up a "reserve for inventory price decline" in 1946 of \$3.5 million and added \$3.75 million more in 1947. These appropriations were made from accounting profits for each year, but after making provisions for Federal income taxes.

Profits and Wages

Now let us assume that the relationship between wages and salaries on one hand and corporate accounting profits after taxes and inventory valuation adjustment on the other, was "normal" in 1939 and that this relationship or ratio could be represented by the index number 100. On this basis the ratio of profits to wages and salaries in 1946 would be 73.6, and in 1947 it would be 113.2. Both these index numbers probably are quite high because (a) the percent of corporate net profits on aggregate net worth in 1939, the year we considered as "normal," was lower than the level reasonably required by corporations for the successful continuation of operations and (b) the profit figures that were used include no adjustment for depreciation charges based on replacement rather than original costs. It is evident at this stage that if figures were available to make a second adjustment to the accounting profits for the years 1939, 1946, and 1947 to take into consideration the difference between depreciation determined on cost and on replacement, the accounting net profits, after taxes, inventory adjustment, and depreciation charge adjustment, would be even lower.

The funds that accrue to the profitable operations of a corporation, as a return on capital, only reach owners through the declaration and payment of dividends. The difference between profits, whether dollar profits or economic profits, and dividend payments to stockholders, is re-invested in each individual corporation for expansion, for development, for research, all for the purpose of providing additional jobs

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and earning additional profits in future years.

The comparisons between profits and wages is enlightening. But to this picture of comparative effects on different areas of our economy during a period of rising prices should be added a comparison of dividends paid by corporations with wages and salaries. This comparison indicates a materially greater percentage increase in wages than in dividend payments. The per cent of the national income which finally reaches individual stockholders of all corporations—and millions of stockholders are factory workers, white-collar workers, people of modest circumstances, charitable and educational institutions—has been shrinking very much faster than the modest decrease in the per cent of wages and salaries.

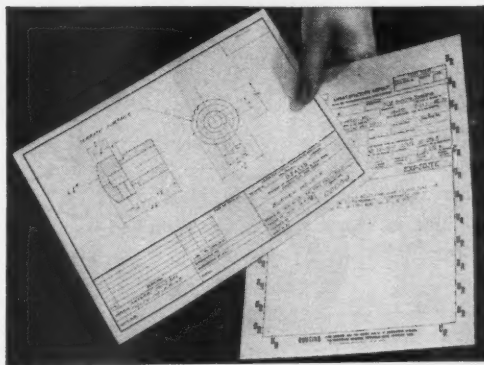
Per Cent in the Red

All figures when compiled into aggregates are dominated by the behavior of the larger concerns. It is possible for corporations as a whole to show accounting profits when more than one-half of all corporations are operating unprofitably. In eleven out of the seventeen years which have passed from 1929 through 1945, the last year for which figures are available, more than one-half of all active corporations operated unprofitably. In 1945, 28.1 per cent of all corporations ended in the red.

Over-all figures of accounting profits fail to show these refinements; the thousands of corporations which were unsuccessful, many of which closed their factories and their stores, and discontinued operations because they lacked the funds to continue operations on the chance that eventually in one, two, or three years they might be successful; the thousands which closed their books just on the right side of the ledger; the thousands more which made modest profits, and the few, very few thousands which made large profits on their net worth. In that single, over-all figure one fails to see the struggles which take place in the unprofitable units, or in the corporations which earn small profits, to keep business alive and in that process provide jobs and pay taxes.

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transportation, wholesale and retail trade, communication, assembling of automobiles, chain stores, machine tool industries, aircraft construction, and air lines. But for managements of representative established corporations, profitable operations involve a much broader horizon than the immediate result. Profits are the essential means for reaching wider economic and social objectives. Profit means more than some relative mathematical black figure in the profit and loss statement at the end of an accounting period.

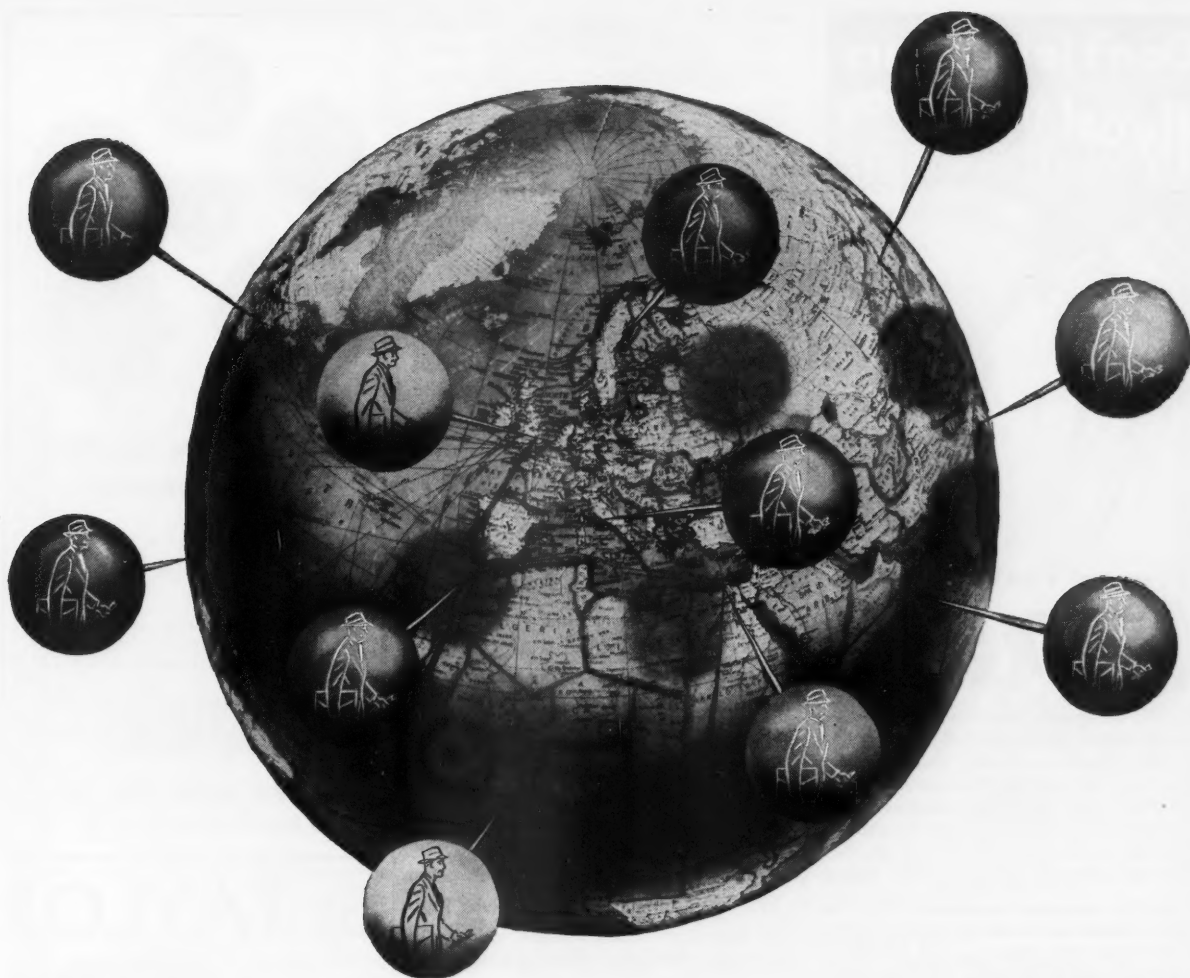
Only profitable businesses over a period of years can provide jobs and opportunity for employees; only profitable businesses can earn a satisfactory return to investors on their earnings; only profitable concerns can spend money on improved tools and methods that make possible better products for customers; only profitable concerns can help others progress including dealers who handle their products and raw material suppliers; and only profitable businesses can pay their share of the heavy costs of present day government by participating in the payment of Federal income taxes.

SECURITY

(Continued from page 12)

economy. It is now becoming clear that security will in the future draw heavily upon the principle that safety for one springs best out of safety for all.

For many years, top-management has sought to earn security through good-will, for no resources serves more effectively to assure general support in times of general vicissitude. In the marketing areas where accomplishment follows upon persuasion rather than direction, the American industrialist has invested heavily in customer good-will. For example, millions of dollars have been invested in the publicizing of trade-marks and branded merchandise, symbolizing company products that consistently give the customer more and better for his money. Resulting accumulations of consumer good-will rarely appear as assets upon balance sheets, yet they do provide important



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More recently, investments in good-will have been directed to the employee group; for an establishment where production is constantly threatened with labor difficulties is a plant whose momentum of productivity is jeopardized. Top-management to-day is instituting long-range policies and programs for employee selection, training, and administration which would not have been dreamed of a scant decade ago.

Even more currently, new emphasis has been placed upon the strengthening of good-will in the community and on the part of the general public. In no industrial area is progress so rapid as in that of public relations. In no area does success or failure more directly bear upon the continuance or discontinuance of private enterprise. It has now become clear that industry requires for its long-term security public approval of a more positive nature than mere acceptance. To gain public approval, industry, in addition to performing an economic service, is being called upon in its rôle of a social institution to make a definite social contribution.

Security in Creativeness

Early in our national life it was Yankee ingenuity that brought security to our colonial mills and factories. Indeed, the concept of patent protection sprang from the desire to reward further through long-term exclusive manufacturing rights the precious creative talents of the old-time inventor.

During the past twenty years many industrial directorates have approved the installation of research and development departments, and there are increasing numbers of administrators who look to constant advance in product and process as the surest long-term security that they can attain.

At present, organizations are favoring active and general investment in highly trained brains, inasmuch as no other resource appears better fitted to face the unique future problems. As one president put it, "The management with the most brain-power per capita will be most likely to survive in this rapidly changing world."

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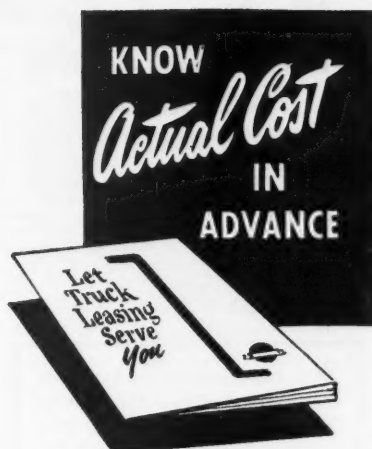
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be assured is the mark of statesmanship. This quality of mind is reflected in the words of a minister of a foreign government which, before the last war, invited an international association devoted to the furtherance of good management to meet within its borders. He said, in effect:

"Good government is long-term government.

"Long-term government is based upon a contented citizenry.

"In an industrial nation, a contented citizenry requires good management.

"This government is therefore disposed to encourage and to support the dissemination of sound management principles and techniques through the medium of this international association."

In like fashion, leadership in American industry is turning to the support of external safeguards which, over the long run, will unfailingly buttress and strengthen the position of private enterprise in the United States. Again the chain of logic supporting these industrial policies can be stated simply:

Public Approval and Support

Private enterprise requires, for its long-term security, the unfailing approval and support of the public.

Unfailing approval and support of the public can be maintained only through steady advance in the quality of industrial services.

Advance in the quality of industrial services can result only from the persistent application by industry of intrinsically new scientific and technical knowledge and skill, conceived within the framework of a free society.

Intrinsically new knowledge and skill are the primary output of institutions engaged in pure research, in applied science, in engineering, and in technical education and training, continuing in the American tradition.

Therefore, long-term support of such institutions is a direct investment in long-term security for company and for stockholder.

Opportunities for exercise of such industrial statesmanship are not lacking. Indeed, the stability and independence of the privately endowed institutions may be dependent upon industrial support. It will soon be true that individuals will be unable to make large

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donations as they have in the past to these institutions, and the latter must then turn to the only remaining sources of great wealth—the corporations. Unless the corporations recognize their opportunity and responsibility in this field, they may well suffer from the federalization of our privately endowed institutions, with its inevitable impact upon the free-enterprise system. Fortunately, such needs are not being overlooked.

Recently, important sums have been authorized by corporate boards for the pursuance of pure research projects to be undertaken by independent institutions. Other large expenditures have been approved for technical investigations in specific areas which are to be actively fostered by trade associations, technical bodies, and other industrially-minded organizations. Finally, fresh momentum is being given to the making of corporate grants of unrestricted funds to privately endowed technical schools for the acceleration of educational and research activities.

It seems clear that industry will not again risk the hazards described in the last depression by C. F. Kettering when he said, "The trouble with us is not overproduction of goods, but underproduction of new ideas."

DEPRECIATION

(Continued from page 19)

come, but some effected them before having computed it.

The accounting profession did not condone the conduct of the recalculants. Their financial statements publicize the fact that their depreciation and, where applicable, other deductions are greater than those allowed under conventional principles of accounting, and that their reported incomes are therefore less than they would be otherwise.

It is significant that the behavior of this minority was not motivated at this time by tax economy. It was well aware of the fact that the taxing authorities would not allow this extra deduction. It was actuated instead by a sincere desire to correct underpricing and un-

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dercosting, and overstating profits, in addition to the predicament of having insufficient funds to reacquire depreciated assets. Its hope is that it will ultimately be accorded tax relief on this account.

One wonders whether management's current protests against the orthodoxy of the accounting profession in its attitude toward cost depreciation is not a misdirected attack against the spiraling inflation in which we are all enmeshed. Accountancy cannot undo the economic disruption engendered by inflation. It can take cognizance in several ways of the undervalued dollars in its publicized reports on such items as inventory and the present critical problem of cost depreciation. But its endorsement of value depreciation in itself will help little to restore or encourage the return of economic normalcy.

Where Past Figures Distort

There are three major accounts where past figures effect a distortion in a current profit and loss statement. These are inventories, fixed assets, and deferred charges such as term insurance premiums and long-term rentals. Deferred charges do not loom large in most financial statements and therefore could not give rise to much current illusory profits.

To the extent that inventories play a part in operations, the misstatement in income is remedied by those who have elected the *Lifo* method of inventorying (last-in, first-out) and abandoned *Fifo* (first-in, first-out). This enables the matching not of prior but of current inventory costs with current revenues.

Some thinkers would like to apply the *Lifo* principle to fixed depreciable assets. Unfortunately the same technique cannot be applied. They advocate a depreciation deduction on fixed assets to be acquired in the future at advanced prices, whereas *Lifo* inventorying is predicated on the expensing of already acquired goods at the latest and not the earliest prices for profit and loss purposes. Some have whimsically named this *Lifo* application to depreciation the *Nifo* or next-in, first-out method.

Arbitrary write-ups of assets and depreciation are not novel. Time cannot have dimmed management's memory of this fact. The accounting profession

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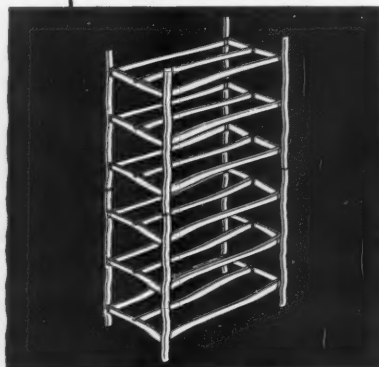
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countenanced the write-up of assets and depreciation in the inflationary period of the 1920's and their write-downs with equal agility and discredit in the depression years in the 1930's. Fixed assets were written up in Austria between 1922 and 1924, in Germany in 1924, in France in 1945, and in Italy in 1946, with no better success in correcting the evils of monetary inflation.

Value depreciation is not a new concept. It is the accepted procedure for rating in public utilities and for valuation in insurance and in real estate. Some thinkers have been advocating it to resolve the present problem of the high cost of depreciable plant and equipment.

Should Not Be Cost Price

It is argued by them that the total charges over the service life of a depreciable asset should represent the cost of the asset not in original dollars but in dollars of equivalent purchasing power. It would be impractical although theoretically sound to make adjustments each year for variances in the price levels of replacements and betterments. Instead they would make periodic adjustments to the service values of such assets where the purchasing power of the dollar dropped perceptibly over the years.

They urge a corrective for the purchasing power of the dollar apart from the question of the propriety of depreciation rates. A distinction is made between these two problems. They do envisage balance sheet write-ups of assets in inflated dollars, but do not insist upon such practise.

They seek to achieve their immediate objective by having gross plant accounts and accumulated depreciation reserves written up by the same price index factor, while depreciation rates remain unchanged. In the alternative the suggestion is made that annual surcharges over and above depreciation be effected, with the latter going into depreciation reserves and the former into capital surplus without adjustments of plant accounts.

In the light of the degree of our national current inflation they propose a currently conservative one-shot increase of 50 per cent in depreciation charges. This is to correct the costing and pricing of goods and the reporting of in-

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Condensed Statement of Condition as of December 31, 1948

Including Domestic and Foreign Branches But Not Including The Affiliated City Bank Farmers Trust Company

(In Dollars Only—Cents Omitted)

ASSETS

Cash, Gold and Due from Banks.....	\$1,532,119,431
United States Government Obligations.....	1,656,863,022
<i>(Direct or Fully Guaranteed)</i>	
Obligations of Other Federal Agencies.....	20,800,544
State and Municipal Securities.....	223,270,860
Other Securities.....	80,736,635
Loans and Discounts.....	1,422,290,652
Real Estate Loans and Securities.....	2,693,232
Customers' Liability for Acceptances.....	22,194,546
Stock in Federal Reserve Bank.....	7,500,000
Ownership of International Banking Corporation.....	7,000,000
Bank Premises.....	27,686,865
Other Assets.....	1,581,831
Total.....	\$5,004,737,618

LIABILITIES

Deposits.....	\$4,643,112,364
Liability on Acceptances and Bills. . \$34,594,396	
Less: Own Acceptances in Portfolio.....	8,562,589
Items in Transit with Branches.....	12,647,857
Reserves for:	
Unearned Discount and Other Unearned Income.....	5,925,327
Interest, Taxes, Other Accrued Expenses, etc.	21,006,274
Dividend.....	4,650,000
Capital.....	\$ 77,500,000
Surplus.....	172,500,000
Undivided Profits.....	41,363,989
Total.....	\$5,004,737,618

Figures of Foreign Branches are as of December 23, 1948.

\$272,043,209 of United States Government Obligations and \$643,355 of other assets are deposited to secure \$199,885,739 of Public and Trust Deposits and for other purposes required or permitted by law.

(Member Federal Deposit Insurance Corporation)

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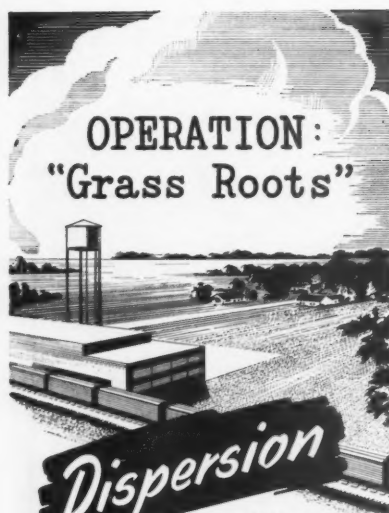
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come, even if the Federal Government does not grant tax deductions for them.

These proponents agree with the present attitude of the accounting profession that depreciation is really an operating expense, but differ with it gravely when they advocate value rather than cost depreciation. A chief sponsor of this school of purchasing power depreciation is George Terborgh, the author of *Depreciation Policy and the Post-War Price Level*, published by Machinery and Allied Products Institute, 1947.

The serious defect with this value depreciation solution is that the aggregate dollar amount deducted over the useful life of an asset may be more or less than the original investment therein depending on whether it was acquired in a deflated or inflated year.

A National Problem

The new depreciation problem is not the exclusive concern of management. It is high time that the public and the Government became conscious of the fact that it goes to the very core of our economic life and is a determinant of our national destiny. We are in the throes of an ominous inflationary spiral between demand for and production of goods.

Output is still lagging behind demand. The latter has been stimulated by increased currency, extended bank and installment credit, lower withholding taxes, increased wages, Government spending, growing exports, renewed defense costs, and even by management's own accelerated purchases of plant and equipment. Production on the other hand has about reached maximum capacity with available facilities and materials.

One way of defeating inflation is to produce enough goods to satisfy the demand. We need increased efficiency and improved technology. These can be achieved by a more liberal Federal depreciation policy so that the taxpayer can more realistically amortize his assets over their useful lives, and so that the manufacturer will be encouraged to replace his worn-out and obsolete equipment with more efficient tools and machines though prices be inflated.

This proposed liberal Federal depreciation program should also embrace a less conservative attitude toward ex-

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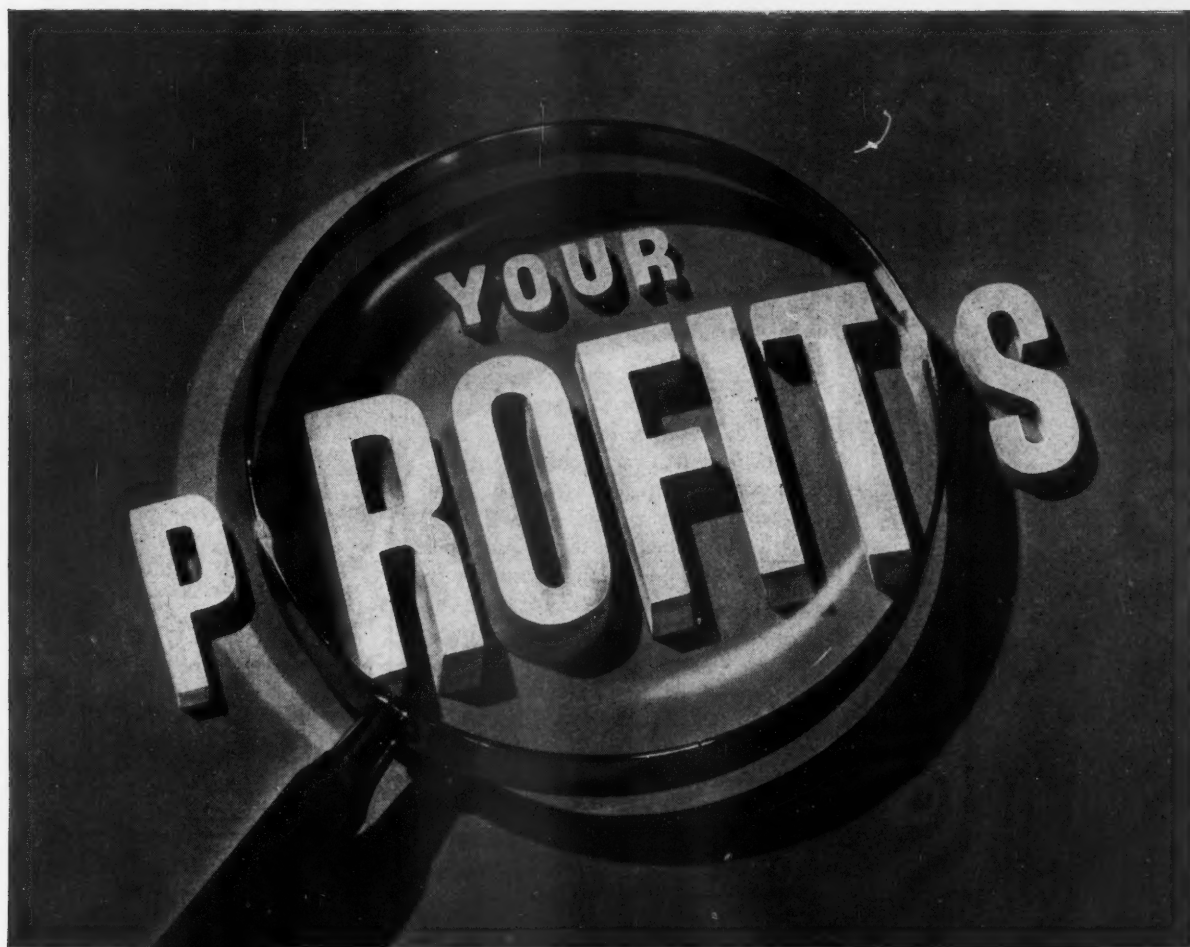
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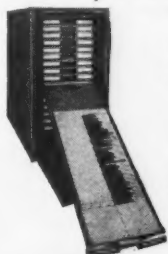
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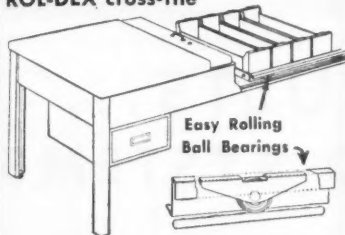
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traordinary or special obsolescence. Although current depreciation rates are intended to provide for normal obsolescence, they do not contemplate or include its extraordinary variety. It occurs where property is affected by revolutionary inventions, abnormal growth or development, radical economic changes, or other factors which may force the retirement or other disposition of property at a future date prior to the end of its normal useful life.

Obsolescence Deductions

Deductions for extraordinary obsolescence in addition to depreciation may be taken tax-wise for the period commencing when such obsolescence becomes apparent and ending when it becomes obsolete. It is allowed, however, only when the depreciation rate is predicated on the longest and not the average estimated useful life of the asset or group of assets.

The acquisition of up-to-date plant and equipment must be accelerated to defeat inflation at home. It must also be done to rehabilitate more rapidly the decimated populations of the war-ridden foreign lands. This entails equipping them with new plant and machinery from our own factories which constitute the most efficient machinery ever produced by man.

Once these countries abroad are revived mechanically they can dominate the world markets because of this superior equipment, and cheaper labor and raw material costs. Management in the United States by contrast will still be handicapped by comparatively obsolete plant and equipment, despite



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Condensed Annual Statement

as on 30th November, 1948

ASSETS

Cash, cheques and balances with other banks.....	\$ 425,204,065.67
Government and other public securities.....	918,420,522.36
Other securities.....	136,626,725.57
Call loans.....	56,534,207.84
Other loans and discounts.....	600,923,527.65
Liabilities of customers under letters of credit.....	65,104,477.12
Other assets.....	19,674,260.30
	<u>\$2,222,487,786.51</u>

LIABILITIES

Capital, reserve and undivided profits.....	\$ 81,485,447.43
Notes in circulation.....	4,320,934.27
Deposits.....	2,067,488,996.81
Letters of credit outstanding.....	65,104,477.12
Other liabilities.....	4,087,930.88
	<u>\$2,222,487,786.51</u>

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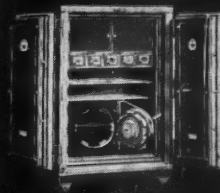


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the accelerated acquisitions since 1946, which it will not be financially able to replace with the same efficient mechanism because of the lack of available funds or the amount of the abandonment loss, not to speak of more expensive labor and materials.

We must be economically wary and vigilant. Extraordinary obsolescence has been a contributing factor in the wars of modern times. The Industrial Revolution in England in the eighteenth century made that country the machine shop of the world. The Civil War marks the great economic era in our own nation. We both proceeded to industrialize Germany after her geographic and political unification in 1871 following the Franco-Prussian War as part of an innocent program of business expansion which was accomplished so rapidly that her economic challenge played its part in causing the First World War in 1914.

National Industrial Rivalries

Within 25 years the Second World War broke out with national industrial rivalries providing once again a major cause for world carnage and destruction. England and the United States had restored defeated Germany to her former industrial rank. All three countries helped industrialize Japan and Russia, particularly after their war in 1905, with the consequence that by 1939 all these countries were vying with one another for supremacy in world trade and markets.

Economically, we have won the Second World War. All our competitors are suffering from various degrees of economic decadence or ruin. Morality and humanitarianism dictate that we aid them and revive their economic lives. That we must do. Yet the process means our own undoing unless we exercise proper economic foresight.

The plants and equipment that we sell or give them will be more productive and efficient than our own competing operating organizations. We will be exporting the most efficient and productive machines that our factories can turn out. We, on the other hand, will compete encumbered with higher material and labor costs and with less efficient and more obsolete machinery, except for the replacements since 1946, until we have at least depreciated much

of our own plant and equipment investment and until our companies have the available supplementary funds from retained earnings, depreciation allowances, and public money with which to acquire this more efficient mechanism.

In a sense our competitors will start economically where we left off. They can be reindustrialized in one or more years. We cannot revitalize our technological organization as rapidly under our present national tax and financial structure. We must not allow our magnanimity to boomerang with economic vengeance.

Proposed Depreciation Policy

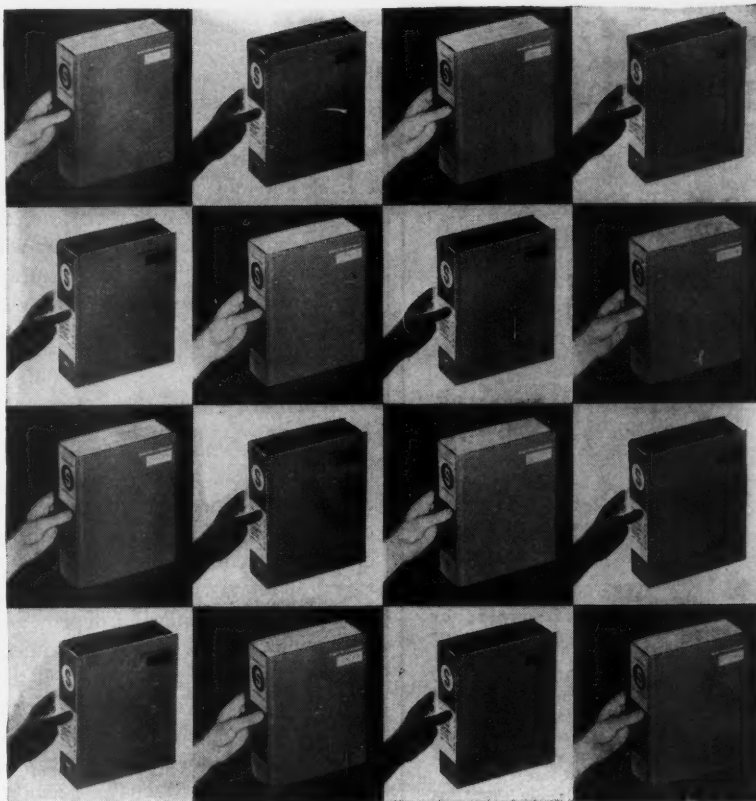
Having diagnosed our national depreciation disease, we now betake ourselves to its therapeutics with no intent to prescribe an economic panacea, but only a palliative.

It is proposed as a national policy, because of our domestic and impending international depreciation and obsolescence predicaments, that conducive legislation be enacted to allow taxpayers the election of a conditional tax deduction for funds set aside for plant and equipment betterments and expansion to replace those worn-out and obsolete. Its purpose is to defeat inflation at home and to preserve a competitive position for ourselves in international trade.

Its justification in principle lies in Section 112(f) of the Internal Revenue Code which provides for tax deductible losses when property is involuntarily destroyed by fire or storm. By the same token, property confiscated by economic forces beyond the control of the individual taxpayer such as advanced current replacement price levels should give rise to tax deductions. It is conceived as a conditional emergency depreciation surcharge rate up to a suggested maximum of 3 per cent in addition to the depreciation rate based on cost.

These depreciation surcharges are expected to be invested in especially issued $1\frac{1}{2}$ per cent interest bearing non-negotiable Government bonds so that they will not be dissipated in the distribution of dividends or in the performance of business operations. Besides, they are intended to be readily available on demand for the acquisition of prescribed new assets.

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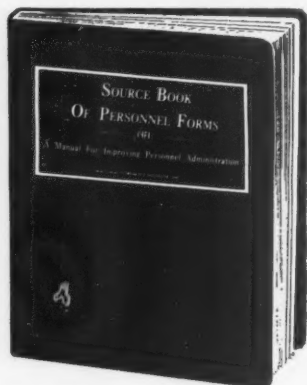
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thus have a source of money at low interest rates to implement its defense policy at home and its humanitarian program abroad without the bonds being sufficiently attractive solely as a permanent investment. They should be callable and replaceable so that the Government might increase their interest-bearing rates to the end that they will militate against inflation by encouraging the simultaneous increase in interest charges on commercial bank loans to industry at large.

Permanent Deductions if

These deductions are contemplated to become permanent if they are matched annually by at least an equal amount of earned surplus derived from all operations including depreciation after taxes (before taking the special tax deduction) for the acquisition of plant and equipment, provided they are acquired within a period of three years. If this special funded reserve in Government bonds is not expended within this time, the conditional tax deduction shall be disallowed and the taxpayer's liability will be restored to what it would have been if the corporation had not elected the temporary deduction with no other adjustment in reportable income.

In the usual accrual-basis taxpayer, these sums are to be treated as deductions when accrued and not when spent unless both occur in the same year. The proposed Government assistance through tax allowances shall be applicable exclusively to plant and equipment where the problems of price levels and productivity have become most critical for both taxpayers and the nation.

If the accrued or actual investments in new plant and equipment, depending on whether the taxpayer is on the accrual or cash basis, do not equal the aggregate of both the retained surplus and the special funds for the preceding overlapping three-year periods, these capital expenditures shall be prorated in accordance with the comparative amounts of the special funds with the expenditures first being applied to earned surplus.

At no time have bona-fide accumulations of earnings for the acquisition of plant and equipment rendered corporations vulnerable to the penalty surtax for the unreasonable accumulations of earnings under Section 102, Internal

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Revenue Code. If the conditional election of the tax-free plant and equipment funded credit is not satisfied by the actual acquisition of these assets within the prescribed three years, the taxpayer will not be in *status quo ante*.

Must Be a Legitimate Intent

To commence with, the corporation will be deprived of the tax deduction. With respect to its vulnerability under Section 102, Internal Revenue Code, its position might be worsened because it will have retained earnings that it would have presumably distributed as dividends had it not contemplated plant and equipment betterments and expansion, and because it will have restored earnings after taxes from the liquidated Government bonds which will add to its undistributed earned surplus.

However, if originally there was a bona-fide intent to acquire such properties as evidenced, for example, by filed plans and specifications, contractual commitments, and the like in addition to the conditionally retained earnings and the purchased special Government bonds for new plant and equipment, but it abandons this program because of unforeseen events the Section 102, Internal Revenue Code, liability will not accrue. The precariousness of this aspect of the tax problem should discourage taxpayers of availing themselves of the proposed conducive legislation unless they legitimately intend to acquire plant and equipment betterments and expansion.

Certainly if the proposed new plant and equipment tax-deductible condition is fulfilled, the possible impact of Section 102, Internal Revenue Code, is eliminated at least to the extent that earned surplus and the specially funded reserve are invested for this purpose.

Where the actual investments in the new depreciable plant and equipment have been incurred or paid, net operating loss carry-backs and carry-overs to the possible previous two and succeeding two years shall take cognizance of the reduced taxes accrued or paid because of the use of the proceeds of the liquidated special Government bonds.

On the other hand, if the tax deduction for the new plant and equipment fund is still temporary because of the failure to incur or make the investment within the prescribed three-year period,

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in applying net operating loss carry-backs and carry-overs, these conditional tax deductions shall be treated as not having been allowed. The proposed conducive legislation for new plant and equipment would then be applicable to the surviving special funds.

Once the proposed legislation becomes law, the accounting profession must perform recognize it and reflect it where it applies in the financial statements of their clients.²

² A comparable plan for tax-free replacement reserves can be found in *Depreciation Policy and Post-War Expansion* by Lewis H. Kimmel, Washington, D. C., Brookings Institute 1946.

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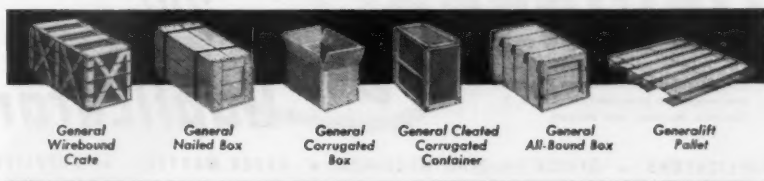
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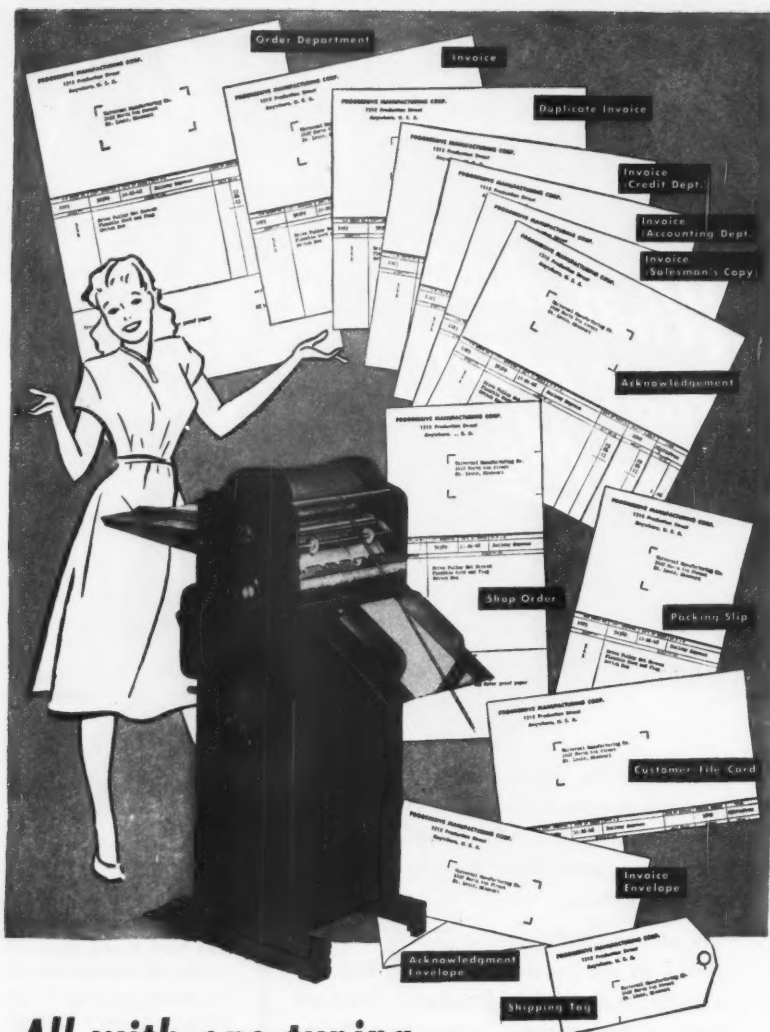
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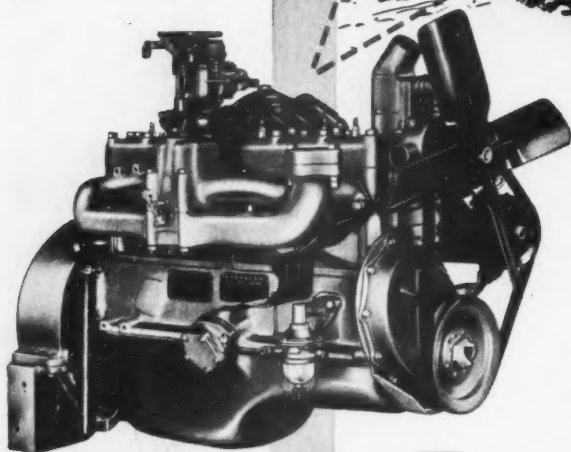
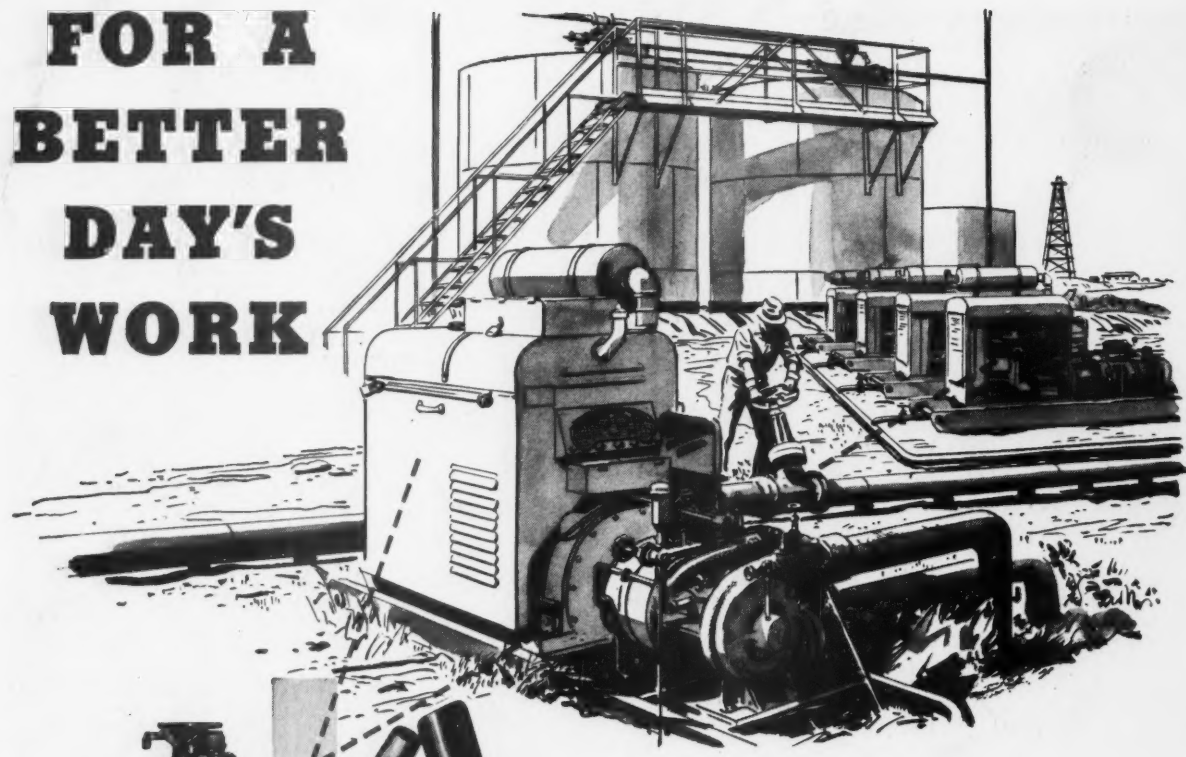
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